

MANAGEMENT SERVICES

CHAPTER 19

GRANTS AND COOPERATIVE AGREEMENTS MANAGEMENT

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PART 147 - PROGRAM OFFICIAL RESPONSIBILITIES IN THE ADMINISTRATION OF PHS GRANTS

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147.0 Background and Purpose

(a) The proper development, funding, and management of grant programs requires the active participation of staff who are trained and experienced in a variety of disciplines and who maintain complementary interaction with a wide range of scientific and business organizations. These personnel include the program staff concerned with scientific, technical, and programmatic topics and grants management staff concerned with business management aspects of grant programs. Close coordination between and understanding of the responsibilities of these team members is vital to the achievement of program objectives. It is particularly important that the role of the Program Official as the PHS scientific/technical official for a particular grant, or cooperative agreement be well defined and understood. Program Officials may also be known by their functional or programmatic titles, e.g., Health **Science** Administrators, Public Health Advisors, or Project Officers.

(b) Program Officials and Grants Management Specialists each have necessary and complementary roles in assuring proper stewardship of Federal grant funds. Each is responsible for basic staff work which must be integrated in the decisions and actions impacting on the selection and continued funding of projects, yet they must work as a team. The proper stewardship of Federal grant funds depends on the integrated efforts of (1) the Program Official in determining the appropriateness and value of proposals as well as establishing the provision of expertise in the technical or scientific areas of the administration of grant **projects** and (2) the Grants Management Specialist in observing the policy and the use of good business practice in the administration of grant programs for which they are responsible.

(c) Throughout the entire grants process, from application review to closeout, the heads of the awarding offices must be assured of the appropriateness of decisions made concerning applications and awards from both the programmatic and administrative management perspectives. These officials must rely on the advice, guidance, and recommendation of both the program and grants management staff. The Program Official is a key staff resource for information on applications/projects. Many decisions and determinations, including some of the most important in the administration of grant programs, can be made only by persons with appropriate programmatic expertise. Therefore, input **from** Program Officials is

required in a number of areas which include, for example, determinations of the adequacy of an applicant's plans to accomplish project objectives, the extent of a grantee's compliance with programmatic requirements, and the quality and degree of a grantee's programmatic performance.

(d) The purpose of this part is to 'delineate the role of the Program Official in order to ensure an appropriate degree of consistency in carrying out those responsibilities which relate to the administration of grants throughout PHS and to address the qualifications for such individuals. This part complements PHS Grants Administration Manual' Part 101, which establishes and delineates the role of the Grants Management Officer in the administration of PHS grants. -

147.1 Applicability

This part is applicable to all PHS grant and cooperative agreement programs, including discretionary formula, and block grant programs. When the term "grant" is used, it also includes cooperative agreements.

147.2 Appointment, Organizational Placement and Responsibilities of Program Officials

(a) Program Officials are involved in numerous preaward and postaward activities covering a wide range of responsibilities. It is important to delineate clearly assigned responsibilities as well as a point of contact on programmatic issues for applicants and recipients of awards.

(b)(1) With respect to each grant program, the official who has authority to award grants shall:

(i) Clearly specify the organizational unit/personnel responsible for performing (or seeing that someone else performs) the functions in 147.3 below.

(ii) Ensure that either the unit has staff with the expertise necessary to perform the functions, or that satisfactory central service or cross servicing arrangements are in place.

(2) 'With respect to each grant award, the official who has authority to award grants shall appoint a Specific Program Official as the person responsible for the technical/programmatic/scientific aspects of each grant to perform the functions in 147.3(d), (e) and (f) below.

(3) The emphasis placed on the functions in 147.3 may vary from program to program depending on the relative technical expertise of PHS staff, the nature of the program, the nature of the recipient organization, the nature of the assistance relationship, the fact that some functions may be centralized, thereby limiting the Program Official's role in a particular aspect of the grant process, and other factors.

(c) With reference to a particular project, the Program Official ordinarily relates to the principal investigator/project director of the grantee or applicant institution. In this capacity, the Program Official is the focal point for the technical/programmatic/scientific aspects of the application review, negotiation, award, and administration of grants. Although the role of the Program Official is an important one, it is not an independent one. As a key member of the team, the Program Official shares with others, principally review staff and the Grants Management Specialist, the responsibility for the effectiveness of grant projects which fulfill the agency's overall objectives and priorities.

(d) To assure proper balance between business management and programmatic considerations, Program Officials must be placed in an environment that is independent of those offices that are responsible for the business management functions. Program Officials must be free to exercise their professional judgment with respect to their areas of responsibility without undue pressures or controls. With such freedom, however, Program Officials have the responsibility to exercise judgment and prudent stewardship over Federal funds in accordance with the highest standards of professional and ethical conduct. As a minimum, Program Officials shall perform their duties in accordance with the standards listed in the following paragraphs of this section.

(e) Program Officials shall give due consideration to the significance and impact of their actions upon established program goals and objectives. They shall coordinate with other responsible staff on programmatic and technical matters and with the grants management staff on all business matters which impact on the activities of the grant-supported project and/or application.

(f) Program Officials shall carry out all functions for which they are responsible with due professional care, fairly and objectively, and in a timely and consistent manner. Special care must be taken to ensure that the Federal Employee Standards of Conduct are followed and no person or organization is provided information that is not available to the public.

147.3 Functions of Program Officials

(a) Program Official functions may be categorized either as general programmatic duties or specific responsibilities in conjunction with the administration of a grant. Paragraph (b) below discusses the general programmatic duties; paragraphs (c) through (f) discuss the specific grant administration responsibilities. As stated above, these functions may vary from awarding component to awarding component.

(b)- General Programmatic Duties. The Program Official has a major role in the development of program regulations, guidelines, and application instructions.

(1) Under the direction of the head of the awarding office, establishes or participates in the establishment of goals for new programs or activities and plans of action for implementation. This may include

the development of new grant programs in response to legislation or changes in grant program emphasis and priority. The development of new or changes in existing grant programs are implemented through the issuance of regulations and program announcements.

(2) In order to obtain competition for financial assistance to the maximum extent practicable, assists in the development and wide dissemination of program announcements and other information to stimulate interest and ensure a fair opportunity for response among qualified applicants.

(3) In connection with cooperative agreements, the Program Official assists in identifying the substantial Federal involvement. This information must be included in the program announcements, when published.

(c) Stimulation of Applications

(1) Where appropriate for highly focused activities, initiates meetings with organizations and/or potential principal investigators to explore the potential for development of grant applications. When such meetings are held, Program Officials must be careful that they do not confer a competitive advantage by providing information to any one entity which is not available to all potential applicants or to the public.

(2) Upon request, provides technical assistance, as appropriate, in the development of applications. This technical assistance may include:

(i) Providing advice on the development of the project plan, including goals, objective setting, task delineation, staffing patterns, scope of services, program management systems, etc., as necessary. The applicant must be cautioned, however, that the ultimate responsibility for preparing a meritorious application is the responsibility of the applicant. The final application must be found meritorious by objective/peer reviewers whose viewpoint may differ from that of the Program Official.

(ii) In close coordination with the Grants Management Specialist, providing general information on business management policies and referring to the grants management staff, for appropriate action, requests for information on budget formulation, financial systems, personnel systems, property management, completion of business items on the application, etc., that may have been addressed to the Program Official, together with any necessary recommendations based on the scientific or technical programmatic aspects involved.

(iii) Providing guidance to applicants on possible linkages with other resources.

(iv) For programs which require a preapplication, providing preapplication reviews in order to determine the appropriateness of the proposal to the solicitation topics, the inclusion of required activities, if any, and project plan compliance with program regulation and guidelines.

(V) Providing explanations of programmatic requirements, regulations, guidelines, technical evaluation, and funding criteria.

(d) Application Review/Preaward Activities. The Program Official serves as a primary program resource to the objective/peer review committee, e.g., study section, and performs the activities listed below: however, the functions may differ in those PBS agencies which use a centralized organizational component for review.

(1) As necessary, responds to questions raised by the review committee regarding program policy, goals and objectives, specific areas of need, and other relevant program issues.

(2) Provides comments or raises concerns which should be brought to the attention of the decision-making official and the persons responsible for negotiating the final award.

(3) As appropriate, explains to the applicant any programmatic deficiencies-in the grant application identified by the review committee. Provides technical assistance to unsuccessful applicants in order to assist them in revising their applications for resubmission.

(4) Assists in assuring that the budget, financial plan, and all business administration aspects of the application reflect project needs and program requirements.

(5) Assists the Grants Management Specialist in the negotiation with the prospective recipient of the grant budget, particularly in technical matters.

(6) As appropriate, works with the applicant to ensure that any programmatic concerns/comments (e.g., human/animal subjects) identified in the review process are resolved prior to award and recommends special conditions, if necessary, for inclusion in the award document.

(e) Postaward. Because of the need to present a uniform and consistent position to grantees, most postaward activities involve a particularly close coordination between program and grants management staff. Although activities listed below are presented in terms of Program Official responsibilities, there needs to be a team approach with appropriate collaboration and exchange of information between Program Officials and Grants Management Specialists. The Program Official:

(1) Provides direct consultation and assistance to grantees concerning programmatic or technical matters as requested.

(2) Conducts site assessments as warranted by program or project needs or as requested by the grantee to substantiate progress and compliance with laws, regulations, and policies.

(3) Evaluates all projects for programmatic performance, progress, and any changes (e.g., in methodology), utilizing information gathered from on-

site reviews, review of financial, progress and other reports, correspondence, and other sources. Identifies potential or existing programmatic or business management problems and shares with appropriate staff information and/or findings concerning those problems. Participates with other staff, as appropriate, in the resolution of those problems and recommends actions for the resolution of the problem(s).

(4) Serves as focal point for responding to technical and programmatic correspondence from the grantee.

(5) Provides input to grants management staff on correspondence from grantees on business management issues.

(6) Provides information as to whether or not special programmatic conditions placed on the award have been met and should be released or other action taken.

(7) Assists in assuring that grant project expenditures are in accordance with law, regulations, and grants policy.

(8) Thoroughly documents all on-site reviews and discussions with the recipient which may influence the administration of the project in the awarding office's official grant file, which is maintained by the Grants Management Office.

(9) Communicates regularly with any other program staff having responsibility for various aspects of the program to keep apprised of the progress of individual projects and of issues which need resolution.

(10) Assists the recipient, where appropriate, with respect to the development of an action plan for the, conduct of subsequent years of the grant project, including the review of the technical aspects of any requests for extension of the final budget period.

(11) Provides input to grants management staff on requests for any ,rebudgeting or other actions which require PBS prior approval.

(f) Closeout. The Program Official shall provide assistance to grants management and other Federal personnel in the closeout of the project including, but not necessarily limited to, a review and/or evaluation of the final progress report, publications, invention statements, and other required reports.

147.4 Letter to Grantee

A letter or other notice should be provided to each grantee at the time of the award, designating both a technical/programmatic contact (Program Official) and a business representative (Grants Management Specialist) as contact persons for the grantee. The letter should provide information on the responsibilities of each. For example, the Program Official's functions would normally include responsibility for monitoring, providing technical and programmatic assistance, and reviewing the project relative

to all scientific, technical, and programmatic aspects while the business representative will normally be responsible for business administration of the project and resolving nonprogrammatic questions.

147.5 Qualifications for Program Officials

The selection of individuals by awarding offices to serve as Program Officials is a very important aspect of grants administration. Given the diversity and complexity of PBS grant programs, it is vitally important that people selected to serve in this role have the qualifications, character, and ethics to exercise good stewardship over the Federal resources involved in a manner which avoids an actual or apparent conflict of interest. It is the responsibility of awarding offices to select individuals who are experienced and who have, or will soon acquire, the training, education, and technical knowledge necessary to perform these functions and responsibilities. The following factors shall be given special consideration:

(a) Formal education or special training (including Government conducted or sponsored courses) in both the programmatic area for which the individual will serve and in the functions and responsibilities of Program Officials .

(b) Knowledge of applicable laws, regulations, and policies.

(c) Knowledge of the awarding office goals and priorities for the program and the funding mechanisms available so that technical assistance provided will be focused.



1) DEPARTMENT C HEALTH & HUMAN SERVICES

Public Health Service

Indian Health Service
Rockville MD 20857

NOV 1 1993

TO: Director
Alaska Area

FROM: Acting Director of Headquarters Operations

SUBJECT: Delegation of Grants Authority to the Alaska Area

AUTHORITY DELEGATED AND TO WHOM

1. Pursuant to the authorities delegated to the Director of Headquarters Operations by the Director, Indian Health Service (IHS), as specified below, I hereby delegate to the Director, Alaska Area-IHS, the authorities to make grants within the Alaska Area, as authorized by the following laws; with restrictions as noted below:

Public Health Service Act, Title III. General Powers and duties of Public Health ServiceDelegated to the Director of Headquarters by the Director, IHS, on **OCT 29 1993**.

Authority under Section 301 (42 United States Code 241) relative to research, investigation, and functions.

Public Law 93-638. Indian Self-Determination and Education assistance Act, as amended

Delegated to the Director of Headquarters Operations by the Director, IHS, on OCT 29 1993.

Section 103(b)(1), except construction, and (2);
Section 103(e)(1) and (2).public law 94-437. Indian Health Care Improvement Act, as amended

Delegated to the Director of Headquarters Operations by the Director, IHS, on Oct 29 1993

Section 110, Tribal Recruitment and Retention Program
Section 208, Health Services Research
Section 209(k), Mental Health Demonstration Grants Program
(limited to one grant)

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Alaska Area

Section 209(m), Intermediate Adolescent Mental Health
Services
Section 214(b), Epidemiological Studies of Indian
Communities
Section 216, Indian Youth Grant Program
Section 404, Access to Health Services
Section 703, except for subsection (d)(2), Indian Women
Treatment Program⁶
Section 708(a), Fetal Alcohol Syndrome and Fetal Alcohol
Effect Grants
Section 713, Alaska Native Drug and Alcohol Abuse
Demonstration Program
Section 818(a), Demonstration Projects for Tribal Management
of Health Care Services

BEDELEGATION AND RESTRICTIONS

2. The authorities in paragraph. 1. above for administrative responsibilities must be redelegated to the Executive Officer, Alaska Area IHS, -for further redelegation through proper management channels, to the Director, Office of Awards and Administrative Services; Alaska Area IHS, who shall be the Area Grants Management Officer (AGMO). These authorities are to be exercised for the purpose of the reinvention laboratory project at the Alaska Native Medical Center and for implementation of an Area-wide grants program.

Grants administrative responsibilities are delineated in the Public Health Service (PHS) grants Administration Manual "Grants Management Officer Responsibilities," and in the Indian Health Manual Part 5 Chapter 20, "Grants and Agreements"

3. The programmatic authorities for the sections listed in paragraph 1. may be redelegated to one or more officials who report directly to the Area Director and who have the necessary knowledge of and expertise with the specific grants authorities in paragraph 1. Grants programmatic responsibilities are delineated in the PHS Grants Administration Manual, Part 143, "Program Official 1/Responsibilities," and in the Indian Health Manual Chapter 5, Part 20, "Grants and Agreements" Program officials must ensure that program specific requirements are adhered to.
- 4 . Delegated grant authority shall include all Area-specific grant programs. The Alaska Area grant authority does not contain any dollar limitations; however, monies for award of Area-specific grant programs must come from Area funds.

1/ Part 5, Chapter 19, "Grants and Cooperative Agreements Management."

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Alaska Area

5. The AGMO must complete a minimum of 5 Of the 7 Health and Human Services (HHS) Grants Training Courses (total 13 days) within 6 months of his/her delegation. In addition to the five mandatory HHS grants courses, the AGMO must attend a 5-day grants operations and procedures training session sponsored by the Chief Grants Management Officer, IHS.

INFORMATION AND GUIDANCE

6. For purposes of this grant authority, the Alaska Area Grants Office is hereby designated a satellite grants office of the IHS Grants Management Branch, Division of Acquisition and Grants Operations, Office of Administration and Management. The Chief Grants Management Officer, IHS, has been designated, by separate delegation, as the Grants Technical Manager for oversight of satellite grants offices.

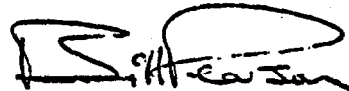
These authorities shall be exercised in accordance with legislative, regulatory, policy, and procedural provisions, including those under the HHS Grants Management Manual, and PHS and IHS supplements or instructions thereto.

PRIOR DELEGATIONS

7. This delegation supersedes the September 29, 1993, Delegation of Authority memorandum to the Director, Alaska Area, from the Director, IHS, subject: Delegation of Grants Authority to the Alaska Area.

EFFECTIVE DATE

8. This delegation of authority is effective upon date of **signature.**



Bill F. Pearson, P.E., E E

SUMMARY OF SELECTED PHS AND IHS POLICY
ISSUANCES REGARDING GRANTS AND COOPERATIVE AGREEMENTS

Format	Exact Title/Subject	Date Issued	Status as of 04/30/95	chapter 19 Reference h Section
HHS Guide	Grants Management Systems Review Guide	12/00/91	Remains in Effect as a Supplement to chapter 19.	Section 11- Management Control Issues: Management Control Review Methodology and the Federal Managers* Financial Integrity Act.
PHS Manual	PHS . Administration Manual	07/01/86 (Includes revisions of selected sections since 1986.)	Remains in Effect as a Policy Directive Supplement to chapter 19.	All Sections.
PHS Policy Statement	<u>PHS Grants Policy</u> Statement	04/01/94 (Most recent revision.)	Remains in Effect as a Policy Directive Supplement to chapter 19.	All Sections.

Manual Exhibit 5-19.3-A

Format	Exact Title/Subject	Date Issued	Status as of 04/30/95	chapter 19 Reference & Section
IHS Manual	Training Manual <u>Indian Health Service</u> <u>Grants Operations and</u> <u>Procedures</u>	01/16/84	Remains in use as a Training Manual, but various Sections are now outdated. Not revised or updated after FY 1984.	None.
IHS Manual	IHS Post Award Grants00/00/93 <u>Administration</u> <u>Training for Indian</u> <u>Health Service</u> <u>Grantees</u> August 1993 - July 1994	00/00/93 Remains	in use Section as a Guide for Post Award Administration: Updated annually.	9--Post- Award Administration.
IHS Memorandum	Delegation of Grants Authority to the Alaska Area.	11/01/93	Remains in Effect as a Policy Directive Supplement to chapter 19.	Section 2-- Authorities and Responsibilities
IHS Memorandum	Delegation of Grant Authority	05/04/94	Remains in Effect as a Policy Directive Supplement to chapter 19.	Section 2-- Authorities and Responsibilities

SUMMARY REFERENCE FOR LEGISLATIVE MANDATES
AND REGULATORY GUIDANCES THAT CONCERN
IHS GRANTS AND COOPERATIVE AGREEMENTS

PART I -- LEGISLATIVE MANDATES

A. Program Authorities

- 1 P.L. 93-638, as amended, Indian Self-Determination and Education Assistance Act, specific grants and compact authorities;
- 1 P.L. 94-437, as amended, Indian Health Care Improvement Act, specific grants authorities;
- 1 P.L. 101-630, as amended, Indian Child Protection and Family Violence Prevention Act, specific grants authorities;
- 0 P.L. 78-410, as amended, Public Health Service Act, specific grants authorities.

B. Appropriation and Administrative Authorities

- e Current Appropriations Act;
- 1 5 U.S. Code 551, Administrative Procedures Act;
- 1 P.L. 101-121, sec. 1352, Limitation on Lobbying;
- 0 P.L. 99-509, Program Fraud Civil Remedies Act;
- 0 18 USC 287 and 1001, False Claims Act;
- 1 P.L. 9-23, Freedom of Information Act;
- e P.L. 93-579, Privacy Act;
- 1 P.L. 103-277, sec. 1041-1044, Pro-Children Act of 1994;
- 0 P.L. 94-168, Metric Conversion Act of 1975, as amended by P.L. 100-418, the Omnibus Trade and Competitiveness Act of 1988;
- 1 31 USC 1341-1351, Anti-Deficiency Act;
- 0 Executive Order 12372, Intergovernmental Review of Federal Programs.

PART II -- REGULATORY GUIDANCES.

A. Program Regulations:

- 0 42 CFR Part 36, Subpart H, Grants and Contracts for Development, Construction, and Operation of Health Facilities and Service
- 0 42 CFR Part 36, Subpart J, Indian Health Care Improvement Act Programs

B. Administrative Regulations:

- 45 CFR Part 74, Administration of Grants;
- 45 CFR Part 92, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments;
- 42 CFR Part 50, Subpart D, PHS Grants Appeals Procedure;
- 45 CFR Part 16, Department Grants Appeals Procedure;
- 45 CFR Part 100, Intergovernmental Review of PHS Programs;
- 45 CFR Part 76, Debarment and Suspension from Eligibility for Financial Assistance;
- 45 CFR Part 46, Protection of Human Subjects;
- 45 CFR Part 30, Subpart B, HHS Claims Collection Regulations.

C. Non-Discrimination Regulations:

- 0 45 CFR 80, Nondiscrimination Under Programs Receiving Federal Assistance;
- o 45 CFR Part 84, Nondiscrimination Based on Handicap;
- o 45 CFR Part 86, Nondiscrimination Based on Sex;
- o 45 CFR Part 91, Nondiscrimination Based on Age;
- 0 45 CFR Part YY, Indian Preference.

D. OMB Circulars:

- e A-89, Catalog of Federal Domestic Assistance;

Manual Exhibit 5-19.3-B

- A-102, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments;
- A-110, Uniform Administrative Requirements for Grants and Other Agreement with Institutes of Higher Education and Other Nonprofit Organizations;
- A-87, Cost Principles for State and Local Governments (including Indian Tribes);
- A-21, Cost Principles for Educational Institutions;
- A-122, Cost Principles for Nonprofit Organizations;
- A-128, Audits for State and Local Governments (including Indian tribal governments);
- A-133, Audits for Institutions of Higher Education and Other Nonprofit Organizations (including Indian Tribes) ;
- A-129, Policies for Federal Credit Programs and Non-Tax Receivables.

F. Treasury Circular:

- 0 Circular 1075, Withdrawal of Cash from Treasury for Advances under Federal Grant and Other Programs.

F. Other Directives Current at Time of Award:

- 0 GAO Government Auditing Standards;
- 0 HHS and PHS Grants Administration Manuals;
- 0 PHS Grants Policy Statement.

INDIAN HEALTH SERVICE
CURRENT GRANT AND COOPERATIVE AGREEMENT

FY 1994 AWARDS

(a) Program	(b) Estimated FY 1994 Award Totals
1. Adolescent Health Centers for American Indians and Alaska Natives	\$ 436,200
2. Adolescent Health Services: Tribal Demonstration Projects	0
3. Development Grants for Indian Health Services for Indians	22,271,500
4. Evaluation of Tribal Management of Health Services for Indians	255,100
5. Feasibility Studies: Tribal management of Indian Health Services	558,100
6. Health Professions Recruitment and Placement for Indians (Cooperative Agreements)	573,800
9. Indian Health Personnel--Training	1,523,500
8. Indian Child Protection and Child Abuse	200,000
9. Indian Health Service Research Program	62,900
10. Mental Health Management Development Program	463,400
11. Planning and Evaluation Grants: Federal Programs for Indian Health Services	52,000
12. Planning Grants: Tribal Management of Health Services for Indians	900,000
13. Research and Demonstration Projects on Indian Health (Cooperative Agreements)	498,600
14. Tribal Recruitment and Retention of Health Professionals	459,000

(a) Program	(b) Estimated FY 1994 Award Totals
15. Tribal Recruitment and Retention of Health Professionals (Cooperative Agreements)	0
16. Tribal Self-Governance negotiation (Cooperative Agreements)	300,000
17. Tribal Self-Governance Planning (Cooperative Agreements)	864,600
18. Urban Indian Alcohol and Substance Abuse Services	6,203,600
19. Urban Indian Health Services	866,200
20. Urban Indian Mental Health Services	118,000
21. Health Professions Pregraduate Scholarships for Indians	1,887,300
22. Health Professions Recruitment Program for Indians	2,702,900
23. Indian Health Scholarships	8,965,000
24. Indian Health Service Loan Repayment Program	11,054,500
25. Matching Grants to Indian Tribes: Health Professions Scholarship Program	56,000
26. Preparatory Scholarships for Indians	2,158,400
TOTAL:	\$ 63,765,300



DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Indian Health Service
Rockville MO 20857

DATE: April 3, 1995

TO: See Addressees Below

FROM: Acting Director
Division of Acquisition and Grants Operations .,

SUBJECT: Grants Program Announcement Plan - ,ACTION

In September 1992, the Office of the Assistant Secretary for Management and Budget (OASMB) instituted a requirement for a Grant Program Announcement Plan (see attached format and instructions). The plan is to be updated annually with the Fiscal Year 1996 plans due to the Public Health Service on April 24, 1995.

If you anticipate announcing a competitive grants program for next fiscal year (1996), please fill in the information requested and fax your completed plan to the Grants Management Branch (GMB) by COB April 20, 1995. Our fax number is (301) 443-9602.

The GMB will continue to assist program offices with the development of new announcements as well as to provide the necessary GMB clearance of all program announcements for Indian Health Service programs. Please contact me when you know that funding will be available so that we can begin advance planning and work on the announcement. Program offices are responsible for coordinating directly with Ms. Betty Penn, Chief, Regulations Branch, Office of Planning, Evaluation, & Legislation, for IHS clearance of the draft document and for final publication of the announcement in the Federal Register.

If you have any questions, please contact me on (301) 443-5204.

M. Kay Carpentier
M. Kay Carpentier
Grants Management Branch
M. Kay Carpentier

Attachments

Addressees:

All Associate Directors
Director, IHS Headquarters West
Director, Diabetes Program, HQ West
Director, Division of Community Services, OTA
Director, Division of Clinical and Preventive Services, OHP
Director, Division of Environmental Health, OEHE

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Addressees

Director, Division of Facilities Planning & Construction. OEHE
Director, Division of Medical Systems Research & Development,
HQ West
Director, Division of Nursing, OHP
Director, Division of Health Professions Recruitment &
Training, OHR
Chief, Mental Health Programs Branch, HQ West
Chief, Alcohol & Substance Abuse Program, HQ West
Chief, Scholarship Branch, OHR
Chief, Health Manpower Support Branch, OHR
Chief, Special Initiatives Branch, OHP
Maternal and Child Health Staff, OHP
Chief, Regulations Branch, OPEL

HHS Grant Program Announcement Plan: Agency Information

This form serves as a cover page to the entire package which is submitted to the Division of Grants Policy and Oversight (DGPO). It is to be filled out by the OPDIV/STAFFDIV Grants Officer and duly signed. In addition, a comments section is available for noting any issues that should be brought to the attention of ASMB.

HHS Grant Program Announcement Plan: Program Information

This form is used to report data on all *discretionary grant program announcements* that are planned for funding during the current reporting period. For each grant program, the following information is required:

- 0 Program Title and CFDA# - Full name of grant program and its associated Catalog of Federal Domestic Assistance Number (i.e., 93,xxx) If the CFDA number is not yet known, simply denote "Pending" after the program's title.
- 0 Program Type -
 - a) New Award? - Indicate whether the announcement is for a newly authorized program in its initial award year. Appropriate responses are "Yes" or "No".
 - b) Standing Announcement? - indicate whether the program qualifies as a standing program announcement (e.g., published once in the Federal Register and updated only if the information changes, or has a repeating competition cycle performed two or more times a year]. Appropriate responses are "Yes" or "No".
 - c1 Secretary's Priority? -Indicate whether the program has been designated as a priority by the HHS Secretary. Appropriate responses are "Yes" or "No".
- r*. Estimates for Reporting Period -
 - a1 Total Dollars - The total amount of funding designated for the grant program. Data should be reported in full dollars (i.e., \$1,000,000 not \$1.0). Also, if multiple award dates are planned, this figure must be disaggregated accordingly.

- b) Number of Awards - The total number of awards planned for the grant program. Also, if multiple award dates are planned, this number must be disaggregated accordingly.
- c) Date - The expected dates of announcement publication in the Federal Register and formal award of the grant. Responses should be formatted mm/dd/yy (e.g., 01/01/94); if day is not known then report it as 30.
; 4'
- d) Significant Changes? - Indicate whether any changes, relative to the prior year, were made in the grant program. More than one response may be coded. Appropriate responses include:
 - 0 No change
 - 1 + 5% increase in funding
 - 2 -5% decrease in funding
 - 3 Budget period
 - 4 Project period
 - 5 Number of grants
 - 6 Criteria for selection or eligibility

Please note that all of these columns must CONTAIN data. In case of incomplete or inconsistent data, the person signing this form (see header area) will be contacted to clarify the discrepancy.

* ** Questions concerning either of these forms should be directed to Suzanne Neill (690-573 1). of the Division of Grants Policy and Oversight, ASMB

HHS GRANT PROGRAM ANNOUNCEMENT PLAN:

Program Information

Submitted By

Name/Title: John Smith, Director Planning and Support

Office: OCS

Phone: (202) 690-1234

Signature: _____

Date: 04/28/93

Program Title and CFDA#	Type			Estimates for Reporting Period				
	New Program? (Y/N)	Standing Announcement? (Y/N)	Secy's Priority? (Y/N)	Total Dollars	No. of Awards	Dates (mm/dd/yy)		Significant Changes (0-5)
						Publication	Award	
ABC Discretionary Grant (93.000)	Y	N	Y	\$ 10,000,000	500	10/01/94	09/30/95	0
XYZ Discretionary Grant (93.999)	N	Y	N	\$ 200,000	3	05/15/94	12/01/94	2, 5
				\$ 200,000	5	07/15/94	04/01/95	
				\$ 200,000	7	01/15/94	08/01/95	

TN 95-14
(10/01/95)

²Significant Changes: 0) No Change; 1) +5% increase in funding from prior year; 2) -5% decrease in funding from prior year; 3) budget period; 4) project period; 5) number of grants; 6) criteria for selection or eligibility.

Submitted By
Name/Title:

Phone:

Date:

TN 95-14
(10/01/95)

ASMB 3/93



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

Manual Exhibit 5-19.10-A

April 12, 1985

CIRCULAR No. A-128

. 1

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Audits of State and Local Governments.

1. Purpose. This Circular is issued pursuant to the Single Audit Act of 1984, P.L. 98-502. It establishes audit requirements for State and local governments that receive Federal aid, and defines Federal responsibilities for implementing and monitoring those requirements.

2. Supersession. The Circular supersedes Attachment P, "Audit Requirements," of Circular A-102, "Uniform requirements for grants to State and local governments.*"

3. Background. The Single Audit Act builds upon earlier efforts to improve audits of Federal aid programs. The Act requires State or local governments that receive \$100,000 or more a year in Federal funds to have an audit made for that year. Section 7505 of the Act requires the Director of the Office of Management and Budget to prescribe policies, procedures and guidelines to implement the Act. It specifies that the Director shall designate "cognizant" Federal agencies, determine criteria for making appropriate charges to Federal programs for the cost of audits, and provide procedures to assure that small firms or firms owned and controlled by disadvantaged individuals have the opportunity to participate in contracts for single audits.

4. Policy. The Single Audit Act requires the following

a. State or local governments that receive \$100,000 or more a year in Federal financial assistance shall have an audit made in accordance with this Circular.

b. State or local governments that receive between \$25,000 and \$100,000 a year shall have an audit made in accordance with this Circular, or in accordance with Federal laws and regulations governing the programs they-participate in..

c. State or local governments that receive less than \$25,000 a year shall be exempt from compliance with the Act and other Federal audit requirements. These State and local governments shall be governed by audit requirements prescribed by State or local law or regulation.

TN 95-14
(10/01/95)

3. Nothing in this paragraph exempts State or local governments from maintaining records of Federal financial assistance or from providing access to such records to Federal agencies, as provided for in Federal law or in Circular A-102, "Uniform requirements for grants to State or local governments.

5. Definitions. For the purposes of this Circular the following definitions from the Single Audit Act apply:

a. "Cognizant agency" means the Federal agency assigned by the Office of Management and Budget to carry out the responsibilities described in paragraph 11 of this Circular.

b. "Federal financial assistance" means assistance provided by a Federal agency in the form of grants, contract cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations, but does not include direct Federal cash assistance to individuals. It includes awards received directly from Federal agencies, or indirectly through other units of State and local governments.

c. "Federal agency" has the same meaning as the term 'agency' in section 551(1) of Title 5, United States Code.

d. "Generally accepted accounting principles" has the meaning specified in the generally accepted government auditing standards.

e. "Generally accepted government auditing standards" means the Standards For Audit of Government Organizations, Programs, Activities, and Functions, developed by the Comptroller General, dated February 27, 1981.

f. "Independent auditor" means:

(1) a State or local government auditor who meets the independence standards specified in generally accepted government auditing standards; or

(2) a public accountant who meets such independence standards.

"Internal controls" means the plan of organization and method and procedures adopted by management to ensure that:

(1) resource use is consistent with laws, regulations, and policies;

(2) resources are safeguarded against waste, loss, and misuse; and

(3) reliable data are obtained, maintained, and fairly disclosed in reports.

h. "Indian tribe" means any Indian tribe, band, nations, or other organized group or community, including any Alaskan Native village or regional or village corporations (as, defined in, or established' under, the Alaskan Native Claims Settlement Act) that is recognized by the United States as eligible for the special , programs and services provided by the United States to Indians because of their status as Indians.

I "Local government* means any unit of local government within a State, including a county, a borough, municipality, city, town, township, parish, local public authority, special district, school district, intrastate district, council of governments, and any other instrumentality of local government.

j. "Major Federal Assistance Program,' as defined by P.L. 98-502, is described in the Attachment to this Circular.

k. "Public accountants" means those individuals who meet the qualification standards included in generally accepted government auditing standards for personnel performing government audits.

l. "State"ⁿ means any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam,. American Samoa, the Commonwealth of the Northern Mariana Islands, and the Trust Territory of the Pacific Islands, any instrumentality thereof, and any multi-State, regional, or interstate entity that has governmental functions and any Indian tribe.

m. "Subrecipient" means any person or government department, agency, or establishment that receives Federal financial assistance to carry out a program through a State or local government, but does not ,include an individual that is a beneficiary of such a program. A subrecipient may also be a direct recipient of Federal financial assistance.

6. Scope of audit. The Single Audit Act provides that:

a. The audit shall be made by an independent auditor in accordance with generally accepted government auditing standards covering financial and compliance audits.

b. The audit shall cover the entire operations of a State or local government or, at the option of that government, it may cover departments, agencies or establishments that received, expended, or otherwise- administered Federal financial assistance during the year. However if a State or local government receives \$25,000 or more in General Revenue Sharing Funds in a fiscal year, it shall have an audit of its entire operations. A series of audits of individual departments, agencies, and establishments for the same fiscal year may be considered a single audit.

?
c. Public hospitals and public colleges and universities may be excluded from State, and local audits and the requirements of this Circular. However, if such entities are excluded, audits of these entities shall be made in accordance with statutory requirements and the provisions of Circular A-110, "Uniform requirements for grants to universities, hospitals, and other nonprofit organizations."

d. The auditor shall determine whether:

(1) the financial statements of the government, department, agency or establishment present fairly its financial position and the results of its financial operations in accordance with generally accepted accounting principles;

(2) the organization has internal accounting and other control systems to provide reasonable assurance that it is managing Federal financial assistance programs in compliance with applicable laws and regulations: and

(3) the organization has Complied with laws and regulations that may have material effect on its financial statements. and on each major Federal assistance program.

-
Frequency of audit. Audits. shall be made annually unless the state or local government has, by January 1, 1987, a constitutional or statutory requirement for less frequent audits. For those governments, the cognizant agency shall permit biennial audits, covering both years, if the government so requests. It shall also honor requests for biennial audits by governments that have an administrative policy calling for audits less frequent than annual, but only for fiscal years beginning before January 1, 1987.

8. Internal control and compliance reviews. The Single Audit Act requires that the independent auditor determine and report on whether the organization has internal control systems to provide reasonable assurance that it is managing Federal assistance programs in compliance with applicable laws and regulations'.

a. Internal control review. In order to provide this assurance the auditor must make a study and evaluation of internal control systems used in administering Federal assistance programs. The study and evaluation must be made whether or not the auditor intends to place reliance on such systems. As part of this review, the auditor shall

(1) Test whether these internal control systems are functioning in accordance with prescribed procedures.

(2) Examine the recipient's system for monitoring subrecipients and obtaining and acting on subrecipient audit reports.

b. Compliance review. The law also requires the auditor to determine whether the organization has complied with laws and regulations that may have a material effect on each major Federal assistance program,

(1) In order to determine which major programs are to be tested for compliance, State and local governments shall identify in their accounts all Federal funds received and expended and the programs under which they were received. This shall include funds received directly from Federal agencies and through other State and local governments.

(2) The review must include the selection and testing of a representative number of charges from' each major Federal assistance program. The selection and testing of transactions shall be based on the auditor's professional judgment considering such factors as the amount of expenditures for the program and the individual awards; the newness of the program or changes in its conditions: prior experience with the program, particularly as revealed in audits and other evaluations (e.g., inspections, program reviews) : the extent to which the program is carried out through subrecipients; the extent to which the program contracts for goods or services: the level to, which the program is already subject to program reviews or other forms of independent oversight; the adequacy of the controls for ensuring compliance: the expectation of adherence or lack of adherence to the applicable laws and regulations: and the potential impact of adverse findings.

4 u.

(a) In making the test of transactions, the auditor shall determine whether:

- - the amounts reported as expenditures were for allowable services, and

-- the records show that those who received services or benefits were eligible to receive them.

(b) In addition to transaction testing, the auditor shall determine whether:

-- matching requirements, levels of effort and earmarking limitations were met,

Federal financial reports and claims for advances and reimbursements contain information that is supported by the books and records from which the basic financial statements have been prepared, and

amounts claimed or used for matching were determined in accordance with OMB Circular A-87 "Cost principles' for State and local governments," and Attachments of Circular A-102, "Uniform requirements for grants to State and local governments."

(c) The principal compliance requirements of the largest Federal aid programs may be ascertained by referring to the Compliance Supplement for Single Audits of State and Local Governments, issued by OMB and available from the Government Printing Office. For those programs not covered in the Compliance Supplement, the auditor may ascertain compliance requirements by researching the statutes, regulations, and agreements governing individual programs.

(31 Transactions related-to other Federal assistance programs that are selected in connection with examinations of financial statements and evaluations of internal controls shall be tested for compliance with Federal laws and regulations that apply to such transactions.

9. Subrecipients. State or local governments that receive Federal financial assistance and provide \$25,000 or more of it in a fiscal year to a subrecipient shall:

a; ,determine whether State or local subrecipients have met the audit requirements of this Circular and whether subrecipients covered by Circular A-110, "Uniform requirements for grants to universities, hospitals, and other nonprofit organizations," have met that requirement;

b. determine whether the subrecipient spent Federal assistance funds provided in accordance with applicable laws and regulations. This may be accomplished by reviewing an audit of the subrecipient made in accordance with this Circular, Circular A-110, or through other means (e.g.* program reviews) if the subrecipient has not yet had such an audit:

C. ensure that appropriate corrective action is taken within six months after receipt of the audit report in instances of noncompliance with Federal laws and regulations;

d. consider whether subrecipient audits necessitate adjustment of the recipient's own records: and

e. require each subrecipient' to permit independent-auditors to have access to the records and financial statements as necessary to comply with this Circular.

10. Relation to other audit requirements. The Single \Audit Act provides that an audit made in accordance with this Circular shall be in lieu of any financial or' financial compliance audit required under individual Federal assistance programs. To the extent that a single audit provides Federal agencies with information and assurances they need to carry out their overall responsibilities, they shall rely upon and use such information. However, a Federal agency shall make any additional audits which are necessary to carry out its responsibilities under Federal law and regulation. Any additional Federal audit effort shall be planned and carried out in such a way as to avoid duplication.

a. The provisions of this Circular do not limit the authority of Federal agencies to make, or contract for audits and evaluations of Federal financial assistance programs, nor do they limit the authority of any Federal agency Inspector General or' other Federal audit official.

b. The provisions of' this Circular do not authorize any State or local government or subrecipient thereof to constrain Federal agencies, in any manner, -from carrying out additional audits.

c. A federal agency that makes or contracts for audits in addition to the audits made by recipients pursuant to this Circular shall, consistent with other applicable laws and regulations, arrange for funding the cost of such additional audits. Such additional audits include economy and efficiency audits, program results audits, and program evaluations.

11. Cognizant agency responsibilities. The Single Audit Act provides for cognizant Federal agencies to oversee the implementation of this Circular.

a . The Office of Management and Budget will assign cognizant agencies for States and their subdivisions and larger local governments and their subdivisions. Other Federal agencies may participate with an assigned cognizant agency, in order to fulfill the cognizance responsibilities. Smaller governments not assigned a cognizant agency will be under the general oversight of the Federal agency that provides them the most funds whether directly or indirectly.

b . A cognizant agency shall have the following responsibilities:

(1) Ensure that audits are made and reports are received in a timely manner and in accordance with the requirements of this Circular.

(2) Provide technical advice and liaison to State and local governments and independent auditors.

(3) Obtain or make quality control reviews of selected audits made by non-Federal audit organizations, and provide the results, when appropriate, to other interested organizations.,

(4) Promptly inform other affected Federal agencies and appropriate Federal law enforcement officials of any reported illegal acts or irregularities. They should also inform State or local law enforcement and prosecuting authorities, if not advised by the recipient, of any violation of law within their jurisdiction.

(5) Advise the recipient of audits that have been found not to have met the requirements set forth in this Circular. In such instances, the recipient will be expected to work with the audit-or to take corrective action. If corrective action is not taken, the cognizant agency shall notify the recipient and Federal awarding agencies of the facts and make recommendations for follow up action. Major inadequacies or repetitive substandard performance of independent auditors shall be, referred to appropriate professional bodies for disciplinary action.

(6) Coordinate, to the extent practicable, audits made by or for Federal agencies that are in addition to the audits made pursuant to this Circular: so that the additional audits build upon such audits.

(7) Oversee the resolution of audit findings that affect the programs of more than one agency,

12. Illegal acts or irregularities. If the auditor becomes aware of illegal acts or other irregularities, prompt notice shall be given to recipient management officials above the level of involvement. (See also paragraph 13(a)(3) below for the auditor's reporting responsibilities.) The recipient, in turn; shall promptly notify the cognizant agency. of the illegal acts or irregularities and of proposed and actual actions, if any. Illegal acts and irregularities include such matters as conflicts of interest, falsification of records or reports, and misappropriations of funds or other assets.

13. Audit Reports. Audit reports must be prepared at the completion of the audit. Reports serve many needs of State and local governments as well as meeting the requirements of the Single Audit Act.

a. The audit report shall state that the audit was made in accordance with the provisions of this Circular. The report shall be made up of at least:

(1) The auditor's report on financial statements and on a schedule of Federal assistance: the financial statements; and a schedule of Federal assistance, showing 'the total expenditures for

I each Federal assistance program as identified in the Catalog Of Federal Domestic Assistance. Federal programs or grants that have not been assigned a catalog number shall be identified under the caption "other Federal assistance.

(2) The auditor's report on the study and evaluation of internal control systems must identify the organization's significant internal accounting controls, and those controls designed to provide reasonable assurance that Federal programs are being managed in compliance with laws and regulations. It must also identify the controls that were evaluated, the controls that were not evaluated, and the material weaknesses identified as a result of the evaluation.

(3) The auditor's report on compliance containing:

a statement of positive assurance with respect to those items tested for compliance, including compliance with law and regulations pertaining to financial reports and claims for advances and reimbursements

-- negative assurance on those items not tested:

-- a summary of all instances of noncompliance: and

-- an identification of total amounts questioned, if any; for each Federal assistance award, as a result of noncompliance.

b. The three parts of the audit report may be bound into a single report, or presented at the same time as separate documents.

c. All fraud abuse, or illegal acts or indications of such acts, including all questioned costs found as the result of these acts that auditors become aware of, should normally be covered in a separate written report submitted in accordance with paragraph 13f.

d. In addition to the audit report, the recipient shall provide comments on the findings and recommendations in the report, including a plan for corrective action taken or planned and comments on the status of corrective action taken on prior findings. If corrective action is not necessary, a statement describing the reason it is not should accompany the audit report.

The reports shall be made available by the State or local government for public inspection within 30 days after the completion of the audit.

f. In accordance with generally accepted government audit standards, reports shall be submitted by the auditor to the organization audited and to those requiring or arranging for the audit. In addition, the recipient shall submit copies of the reports to each Federal department or agency that provided Federal assistance funds to the recipient. Subrecipients shall submit copies to recipients that provided them Federal assistance funds. The reports shall be sent within 30 days after the completion of the audit, but no later than one year after the end of the audit period unless a longer period is agreed to with the agency

9 . Recipients of more than \$100,000 in Federal funds shall submit one copy of the audit report within 30 days after issuance to a central, clearinghouse to be designated by the Office of Management and Budget. The clearing house will keep completed audits on file and follow up with State and local governments that have not. submitted required audit reports.

h. Recipients shall keep audit reports on file for three years from their issuance.

14. Audit Resolution. As provided in paragraph 11, the cognizant agency shall be responsible for monitoring the resolution of audit findings that affect the, programs of more than one Federal agency. Resolution of findings that relate to the programs of a single Federal agency will be the responsibility of the recipient and that agency. Alternate arrangements may be made on a case by-case basis by agreement among the agencies concerned.

Resolution shall be made within six months after receipt of the report by the Federal departments and agencies. Corrective action should proceed as rapidly as possible.

15 . Audit workpapers and reports. Workpapers and reports shall be retained for a minimum of three years from the date of the audit report, unless the auditor is notified in-writing by the cognizant agency to extend the retention period. Audit workpapers shall be made available upon request to the cognizant agency or its designee or the General Accounting Office, at the completion of the audit.

16. Audit Costs. The cost of audits made in accordance with the provisions of this Circular are allowable charges to Federal assistance programs.

a. The charges may be considered a direct cost or an allocated indirect cost, determined in accordance with the provision of Circular A-87, "Cost principles for State and local governments."

b. Generally, the percentage of costs charged to Federal assistance programs for a single audit shall not exceed the percentage that Federal funds expended represent of total funds expended by the recipient during the fiscal year. The percentage may be exceeded, however, if appropriate documentation demonstrates higher actual cost.

17. Sanctions. The Single Audit Act provides that no cost may be charged to Federal assistance programs for audits required by the Act that are not made in accordance with this Circular. In cases of continued inability or unwillingness to have a proper audit federal agencies must consider other appropriate sanctions including:

-- withholding a percentage of assistance payments until the audit is completed satisfactorily,

-- withholding or disallowing ,overhead costs,
-- suspending the Federal assistance agreement until
the audit is made.

18. Auditor Selection. In arranging for audit services State and local governments shall follow the procurement standards prescribed by Attachment 0 of Circular A-102, "Uniform requirements for grants to State and local governments.* The standards provide that while recipients are encouraged to enter into intergovernmental agreements for audit and other services, analysis should be made to determine whether it would be more economical to purchase the services from private firms. In instances where use of such, intergovernmental agreements are required by State statutes (e.g., audit services) these statutes will take precedence.

19. Small and Minority Audit Firms. Small audit firms and audit firms owned and controlled by socially and economically disadvantaged individuals shall have the maximum practicable opportunity to participate in contracts awarded to fulfill the requirements of this Circular. - Recipients of Federal assistance shall take the following steps to further this goal:

a. Assure that small audit firms and audit firms owned and controlled by socially and economically disadvantaged individuals are used to the fullest extent practicable.

b. Make information on forthcoming opportunities available and arrange timeframes for the audit so as to encourage and facilitate participation by small audit firms and audit firms owned and controlled by socially and economically disadvantaged individuals.

Consider in the contract process whether firms competing for larger audits intend to subcontract with small audit firms and audit firms owned and controlled by socially and economically disadvantaged individuals.

d. Encourage contracting with small audit firms or audit firms owned and controlled by socially and economically disadvantaged individuals which have traditionally audited government programs and, in such cases where this is not possible, assure that these firms are given consideration for audit subcontracting opportunities.

e. Encourage contracting with consortiums of small audit firms as described in paragraph (a) above when a contract is too large for an individual small audit firm or audit firm owned and controlled by socially and economically disadvantaged individuals.

f. Use the services and assistance, as appropriate, of such organizations as the Small Business Administration in the solicitation and utilization of small audit firms or audit firms owned and controlled by socially and economically disadvantaged individuals.

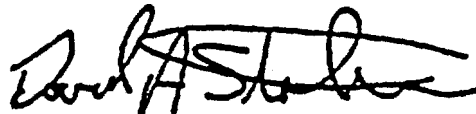
20. Reporting. Each Federal agency will report to the Director of OMB on or before March 1, 1987, and annually thereafter on the effectiveness of State and local governments in carrying out the provisions of this Circular. The report must identify each State or local government or Indian tribe that, in the opinion of the agency, is failing to comply with the Circular. .

21. Regulations. Each Federal agency shall include the provisions of this Circular in its regulations implementing the Single Audit Act.

22. Effective date. This Circular is effective upon publication and shall apply to fiscal years of State and local governments that begin after December 31, 1984. Earlier implementation is encouraged. However, until it is implemented, the audit provisions of Attachment P to Circular A-102 shall continue to be observed.

23.. Inquiries. All questions or inquiries should be addressed to Financial Management Division, Office of Management and Budget, telephone number 202/395-3993.

24.' Sunset review date. This Circular shall have an independent Policy review to ascertain its effectiveness three years from the date of issuance.

A handwritten signature in black ink, appearing to read "David A. Stockman", with a stylized, cursive script.

David A. Stockman
Director

Circular A-28
Attachment

Definition of Major Program as Provided
In P.L. 98-502

"Major Federal Assistance Program," for State and local governments having Federal assistance expenditures between 5100,000 and \$100,000,000, means any program for which Federal expenditures during the applicable year exceed the larger of \$300,000, or 3 percent of such total expenditures.

Where total expenditures of Federal assistance exceed \$100,000,000, the following criteria apply:

Total Expenditures-of Federal Financial Assistance for All Programs		Major federal Assistance Program Means any Program That Exceeds
<u>more than</u>	<u>but less than</u>	
\$100 million	1 billion	S 3 million
1 billion	2 billion	4 million
2 billion	3 billion	7 million
3 billion	4 billion	10 million
4 billion	5 billion	13 million
5 billion	6 billion	16 million
6 billion	7 billion,	19 million
over 7 billion		20 million

OMB Circular A-133

Audits of Institutions of Higher Learning and Other Non-Profit Institutions

(As published in the Federal Register
dated March 16, 1990)



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C 20503
March 8, 1990

OMB Circular No. A-133

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Audits of Institutions of Higher Education and Other
Nonprofit Institutions .

1. Purpose circular A-133 establishes audit requirements and defines Federal responsibilities for implementing and monitoring such requirements for institutions of higher education and other nonprofit institutions receiving Federal awards.

2. Authority Circular A-133 is issued under the authority of the Budget and Accounting Act of 1921, as amended; the Budget and Accounting Procedures Act of 1950, as amended; Reorganization Plan No. 2 of 1970; and Executive Order No. 11541.

3. Supersession Circular A-153 supersedes Attachment F, subparagraph 2h, of Circular A-110 "Uniform Administrative Requirements for Grants and other Agreements with Institutions of Higher Education, Hospitals, and other Nonprofit Organizations."

4. Applicability The provisions of Circular A-133 apply to:

a. Federal departments and agencies responsible for administering programs that involve grants, cost-type contracts and other agreements with institutions of higher education and other nonprofit recipients.

b. Nonprofit institutions, whether they are recipients, receiving awards directly from Federal agencies, or are sub-recipients. receiving awards indirectly through other recipients.

These principles, to the extent permitted by law, constitute guidance to be applied by agencies consistent with and within the discretion, conferred by the statutes governing agency action.

5. Requirements and Responsibilities

The specific requirements and responsibilities of Federal departments and agencies and institutions of higher education and other nonprofit institutions are set forth in the attachment.

6. Effective Date The provisions of Circular A-133 are effective upon publication and shall apply to audits of nonprofit institutions for fiscal years that begin on or after January 1, 1990. Earlier implementation is encouraged. However, until this

Circular is implemented, the audit provision⁶ of Attachment F to Circular A-110 Shall continue to **be** observed.

7. Policy Review (Snset) Date. Circular A-133 will have a policy review three years from the date of issuance.

8. Inquiries. Further-information concerning Circular A-133 may **be** obtained by contacting the Financial Management Division, Office of Management and Budget, Washington, D.C. 20503, telephone (202) 395-3993.

A handwritten signature in black ink, appearing to read "Richard G. Darman", with a long horizontal flourish extending to the right.

Richard G. Darman
Director

OFFICE OF MANAGEMENT AND BUDGET

Issuance of Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Organizations"

AGENCY: Office of Management and Budget.

ACTION: Final issuance of OMB Circular A-133, "Audits of Institutions of Higher Education and Other NON-PROFIT Organizations."

SUMMARY: Circular A-133 provides policy guidance to Federal agencies for establishing uniform requirements for audits of awards provided to institutions of higher education and other nonprofit organizations. It promotes the efficient and effective use of audit services. --

These audit policies arise from a commitment made by the Office of Management and Budget (OMB) during Congressional consideration, of the Single Audit Act of 1984, public Law 98-502. At that time, Congress agreed to exclude most colleges and universities from coverage under the Act. OMB agreed to develop an audit policy for these organizations. In addition, at the request of the Inspectors General, OMB has extended these audit policies to other nonprofit organizations not covered by Circular A-128, "Audits of State and Local Governments."

DATE: Circular A-133 is effective immediately and shall apply to fiscal years of institutions of higher education and other nonprofit institutions that begin after January 1, 1990. Earlier implementation is encouraged. However, until the Circular is implemented, the audit provisions of Attachment F to Circular A-110 shall continue to be observed.

FOR FURTHER INFORMATION CONTACT: Palmer Marcantonio, Financial Management Division, 10235 NEOB, OMB, Washington, DC 20503 (telephone: 202-395-3993).

SUPPLEMENTARY INFORMATION:

A. Background.

On November 10, 1988, a notice was published in the 1 Register (53 FR 45744) requesting comments on a proposed OMB Circular A-133 "Audits of Institutions of Higher Education and Other Nonprofit Organizations.*"

Interested parties were invited to submit comments by January 9 1989. Almost 100 comments were received from Federal agencies: State and local governments, universities, professional organizations, nonprofit organizations and others. All comments were considered in developing these final requirements.

Following is a summary of the major comments, grouped by subject and a response to each, including a description of changes made as a result of the comments. Other changes have been made to increase clarity and readability.

EL. Comments and Responses.

Definitions.

Comment: States were concerned that the audit requirements for public colleges and universities would be different from the requirements of Circular A-128, "Audits of State and Local Governments.

Response: Circular A-133 was amended to provide that the institutions audited as part of a State, in accordance with Circular A-128, are not covered by Circular A-133.

Comment: It is unclear why hospitals are specifically excluded from coverage under Circular A-133.

Response: Most hospitals receive Federal reimbursement from the Medicaid and Medicare programs. These two programs have their own statutory audit requirements. Other Federal funds going to hospitals are provided through research contracts. These contracts are subject to contract closing audits. The remainder of Federal funds at these institutions are insignificant and would not justify a single audit. Hospitals affiliated with university systems are covered.

Comment: The Circular should include a definition of "general oversight," "coordinated audit," "research and development," and "student financial aid."

Response: These definitions were added to the Circular.

Comment: One commenter said it was unclear whether the proposed Circular A-133 applied to programs in which the grantee's funding level is established not by allowable project costs incurred but through "fixed price" formulas (performance-funded programs).

Response: Performance-funded programs are subject requirements of OMB Circular A-133. However, the auditor should tailor the auditing procedures to that type of program. For performance-funded programs, the auditor's examination should be directed to such matters as

determining beneficiary eligibility, verifying units of service rendered, and controlling program income.

Requirements Based on Awards Received.

Comment: Raise the audit threshold to \$100,000 from \$25,000 and exempt institutions below this level from audit requirements.

Response: The threshold of \$25,000 is the same requirement set by law for State and local governments under Circular A-128, "Audits of State and Local Governments." Based on experience to date with that Circular, the \$25,000 threshold appears to be a reasonable one and does not impose an unreasonable burden on small grantees. Consideration will be given to changing this requirement if Congress changes it for State and local governments.

Comment: Non profit institutions receiving \$100,000 or more in financial assistance under only one program should have an option to have an audit made under the Circular or a program specific audit

Response: The Circular was amended to provide that 'nonprofit institutions receiving \$100,000 or more but receiving awards under only one program have the option of having an audit either under the Circular or a program specific audit.

Recipient Responsibility.

Comment: Several commenters objected to the requirement for the prime recipient to review audit reports of subrecipients.

Response: OMB believes that prime recipient has a responsibility to ensure Federal funds were spent in accordance with applicable laws and regulations. At a minimum, the prime recipient should ensure subrecipients meet applicable audit requirements and that corrective action is taken in instances of noncompliance with Federal laws and regulations.

Frequency of Audit.

Comment: The Circular requires an annual audit of institutions of higher education and other nonprofit organizations. This change in audit policy which now requires an audit at

least every two years would be costly for most institutions.

Response! The frequency of audit was changed to provide that audits shall usually be made annually; but not less frequently than every two years.

Small and Minority Audit Firms.

Comment: One commenter said the Circular should provide incentive awards and penalties to improve the opportunities for small disadvantaged CPA firms to get audit work.

Response: The Circular contains a number of provisions to ensure that socially and economically disadvantaged individuals shall have the maximum practicable opportunity to participate in contract awards to fulfill the requirements of the Circular. These are identical to the requirements in Circular A-128, "Audits of State and Local Governments."

Score of Audit and Audit Objectives.

Co&&t: One commenter pointed out that independent auditors following the American Institute of Certified Public Accountants' (AICPA) Industry Audit Guide for Colleges and Universities do not customarily report on the "results of operations," as proposed in the Circular. Rather, because of the nature of college and university financial statements, they report on "the changes in fund balances and the current funds revenues, expenditures, and other changes."

Response: Independent auditors informed OMB that, with impending changes in accounting principles for not-for-profit organizations, these statements are likely to be revised over the next few years, and that auditors will be reporting in the future on the "results of operations" of colleges and universities as well as other not-for-profit organizations. In addition, OMB believes that auditors would generally recognize that, for colleges and universities, the phrase "results of operations" would cover the specific language discussed above for colleges and universities. Consequently, OMB has decided not to change the language of the auditor's determination regarding an institutions' financial position and "results of operations."

Audit Reports.

Comment: Recipients already incur significant additional expense in arranging for new audits. The requirements to send copies of audit, reports to each Federal agency adds cost and paperwork beyond reason.

Response: The audit report distribution requirement is in accordance with the General Accounting offices Government Auditing Standards and is the one required of State and local governments. Most colleges and universities are only dealing with a limited number of Federal agencies and the additional burden should be minimal.

Comment: The date for a completed audit report of one year is too long.

Response: The one-year period is the standard established by the Single Audit Act, P.L. 98-502, for State and local governments. OMB does not believe there should be a different standard for institutions of higher education and other nonprofit organizations.

Other Comments.

Comment: It is not clear if an audit made in accordance with the Circular is intended to be relied on with regard to the cost allocation plan.

Response: If indirect costs were claimed as expenditures on Federal programs during the period being audited, the auditor should have ascertained that the amounts claimed were determined in accordance with the appropriate cost principles. Federal departments and agencies should rely on the work done by independent auditors on cost allocation procedures and practices and avoid duplicate audits.

Comment: Is it intended that an audit made in accordance with Circular A-133 will suffice for closing out contracts?

Response: Federal agencies are encouraged to rely on Circular A-133 audits to the maximum extent practicable, including their use on contract close-outs. However, each Federal agency will be governed by its procurement regulations in determining what additional work, if any, will be required to close out contracts.

Comment: Several comenters pointed out that certain provisions .
in Circular A-133 were not required by P.L. 98-502, the
Single Audit Act, and, therefore, should not **be** mandated.

Response: The Single Audit Act does not apply to most nonprofit
organizations. Public colleges and universities may **be**
covered under the provisions of the Act at the option of
State and local governments.

Certain requirements in Circular .A-133 are-based on
Federal agencies' experience over the last four years
with the implementation of the Single Audit Act. Also,
one of the requirements being questioned stems from an
auditing standard issued by the American Institute, of
Certified Public Accountants.

Frank Hodsoll
Executive Associate Director

OHB CIRCUIAR A-133
AUDITS OF INSTITUTIONS OF HIGHER EDUCATION
AND OTHER NONPROFIT INSTITUTIONS

ATTACHMENT

1. Definitions. For the purposes of this Circular, the following definitions **apply**:

a. "Award" means financial assistance, and Federal cost-type contracts used to buy services or goods for the use of the Federal Government. It includes awards received directly from the Federal agencies or indirectly through recipients. It does not include procurement contracts to vendors under grants or contracts, **used to** buy goods or services. Audits of such vendors shall **be** covered **by** the terms and conditions of the contract.

b. "cognizant agency" means the Federal agency assigned by the Office of Management and **Budget** to carry out the responsibilities described in paragraph 3 of **this** Attachment.

"Coordinated audit approach" means an audit wherein **the** independent auditor, and other Federal and non-federal auditors consider **each-other's** work, **in determining the nature,** timing, and extent of **his** or her own auditing procedures. **A coordinated audit must be conducted in accordance with Government Auditing Standards and meet the objectives and** reporting requirements set forth in paragraph 12(b) and 15, respectively, of **this** Attachment. **The objective of the coordinated** audit approach is to minimize duplication of audit effort, but not **to limit the** scope of the audit work so as to preclude the independent auditor from meeting the objectives set forth in paragraph 12(b) or **issuing the report** required in paragraph 15 in a timely manner.

d. "Federal agency" has the same meaning as the term 'agency' in Section 551(l) of Title 5, **United States** Code.

e. **"Federal Financial Assistance.**

(1) **"Federal financial assistance"** means assistance provided by a Federal agency to a recipient or sub-recipient to carry out a program. Such assistance may be in the form of:

- - grants;
w e contracts;
I N cooperative agreements;
- - loans;
w I loan guarantees;
- - property;
e w interest subsidiest
- - insurance:
- a direct appropriations;
w - other non-cash assistance.

(2) Such assistance does not include direct Federal cash assistance to individuals.

(3) Such assistance includes awards received directly from Federal agencies, or indirectly when sub-recipients receive funds identified as Federal funds by recipients.

(4). The granting agency is responsible for identifying the source of funds awarded to recipients: the recipient is responsible for identifying the source of funds awarded to sub-recipients.

f. 'Generally accepted accounting principles'ⁿ has the meaning specified in the Government Auditing Standards.

g. "Independent auditor" means:

(1) A Federal, State, or local government auditor who meets the Standards specified in the Government Auditing Standards; or

(2) A public accountant who meets such Standards.

h. "Internal control structure" means the policies and procedures established to provide reasonable assurance that:

(1) Resource use is Consistent With laws, regulations, and award terms;

(2) Resources are safeguarded against waste, loss, and misuse: and

(3) Reliable data are obtained, maintained, and fairly disclosed in reports.

i. "Major program" means an individual award or a number of awards in a category of Federal assistance or support for which total expenditures are the larger of three percent of total Federal funds expended or \$100,000, on which the auditor will be required to express an opinion as to whether the major program is being administered in compliance with laws and regulations."

Each of the following categories of Federal awards shall constitute a major program where total expenditures are the larger of three percent of total Federal funds expended or \$100,000:

Research and Development.

Student Financial Aid.

Individual awards not in the student aid or research and development category.

"Management decision means the evaluation by the management of an establishment of the findings and recommendations included in an audit report and the issuance of a final decision by management concerning its response to such findings and recommendations, including actions concluded to be necessary.

k. "Nonprofit institution" means any corporation, trust, association, cooperative or other organization which 1) is operated primarily for scientific, educational, service, charitable, or similar purposes in the public interest; 2) is not organized primarily for profit; and 3) uses its net proceeds to maintain, improve, and/or expand its operations-- The term "Nonprofit institutions" includes institutions of higher education, except those institutions that are audited as part of single audits in accordance with Circular A-128 "Audits of State and Local Governments." The term does not include hospitals which are not affiliated with an institution of higher education, or State and local governments and Indian tribes covered by Circular A-128 "Audits of State and Local Governments."

l. "Oversight" agency means the Federal agency that provides the predominant amount of direct funding to a recipient not assigned a cognizant agency, unless no direct funding is received. Where there is no direct funding, the Federal agency with the predominant indirect funding will assume the general Oversight responsibilities. The duties of the oversight agency are described in paragraph 4 of this Attachment.

m. "Recipient" means an organization receiving financial assistance to carry out a program directly from Federal agencies.

n. "Research and development" includes all research activities, both basic and applied, and all development activities that are supported at universities, colleges, and other nonprofit institutions. "Research" is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. "Development" is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes.

"Student Financial Aid" includes those programs of general student assistance in which institutions participate such as those authorized by Title IV of the Higher Education Act of 1965 which is administered by the U.S. Department of Education and similar programs provided by other Federal agencies. It does not include programs which provide fellowships or similar awards

to student6 on a Competitive basis, Or for Specified studies or research.

*Sub-recipient" means any person or government department, agency, establishment, or nonprofit organization that receives financial assistance to carry out a program through a primary recipient or other sub-recipient, but does not include an individual that is a beneficiary of such a program. A sub-recipient may also be a direct recipient of Federal awards under other agreements.

B "Vendor" means an organization providing a recipient or sub-recipient with generally required goods or services that are related to the administrative support of the Federal assistance program.

2. audit Of Nonprofit Institutions.

a. Requirements Based on Awards Received.

(1) Nonprofit institutions that receive \$100,000 or more a year in Federal awards shall have an audit made in accordance with the provisions of this Circular. However, nonprofit institutions receiving \$100,000 or more but receiving awards under only one program have the option of having an audit of their institution prepared in accordance with the provisions of the Circular or having an audit made of the one program. For prior or subsequent years, when an institution has only loan guarantees or outstanding loans that were made previously, the institution may be required to conduct audits for those programs, in accordance with regulations of the Federal agencies providing those guarantees or loans.

(2) Nonprofit institutions that receive at least \$25,000 but less than \$100,000 a year in Federal awards shall have an audit made in accordance with this Circular or have an audit made of each Federal award, in accordance with Federal laws and regulations governing the programs in which they participate.

(3) Nonprofit institutions receiving less than \$25,000 a year in Federal awards are exempt from Federal audit requirements, but records must be available for review by appropriate officials of the Federal grantor agency or subgranting entity.

b. , Oversight by Federal Agencies.

(1) To each of the larger nonprofit institutions the office of Management and Budget (OMB) will assign a Federal agency as the cognizant agency for monitoring audits and ensuring the resolution of audit findings that affect the programs of more than one agency.

(2) Smaller institutions not assigned a cognizant agency will **be** under the general oversight of the Federal **agency** that provide⁶ them with **the** most **funds**.

(3)' Assignments to Federal Cognizant agencies for carrying out responsibilities in **this** Section are **set** forth in a separate supplement to this Circular.

(4) Federal **Government-owned, contractor-operated** facilities at institutions or laboratories **operated** primarily for the Government are not included **in the** cognizance assignments. These will **remain the responsibility of the Contracting agencies**. The listed assignment⁶ cover all of the functions in this Circular unless otherwise indicated. The Office of Management and Budget will coordinate changes in agency assignments.

3. **Cognizant Agency Responsibilities.** A cognizant agency shall:

a. **Ensure** that audits are made **and** reports are received in a timely manner and in accordance with the requirements of this Circular.

b. Provide technical advice and liaison to institutions and independent auditors:

c. Obtain or make quality *control* reviews of selected audits made by non-Federal audit organizations, and provide the results, when appropriate, to other interested organizations.

d. Promptly inform other affected Federal agencies and appropriate Federal law enforcement officials of *any* reported 'illegal acts or irregularities. A cognizant agency should also inform State or local law enforcement and prosecuting authorities, if not advised by the recipient, of any Violation of law within their jurisdiction.

Advise the recipient of audits that have been *found* not to have met the requirements set forth in this Circular in such instances, the recipient will work with the auditor to **take** corrective action. If corrective action is not taken, the cognizant agency shall notify the recipient and Federal awarding agencies of the *facts* and make recommendations for follow-up action. Major inadequacies or repetitive substandard performance of independent auditors shall be referred to appropriate professional **bodies** for disciplinary action.

f. Coordinate, to the extent practicable, audits or reviews made for Federal agencies that are in addition to the audits made pursuant to this Circular, so that the additional

audits or reviews build upon audits performed in accordance with the Circular.

Ensure the resolution of audit findings that affect the programs of more than one agency.

h. Seek the views of Other interested agencies "before completing a coordinated program.

i. Help coordinate the audit work and reporting responsibilities among independent public accountants, State auditors, and both resident and non-resident Federal auditor⁶ to achieve the most cost-effective audit.

4. Oversight Agency Responsibilities An oversight agency shall provide technical advice and counsel to institutions and independent auditors when requested by the recipient. The oversight agency may assume all or some of the responsibilities normally performed by a cognizant agency.

5. Recipient Responsibilities A recipient that receives a Federal award and provides \$25,000 or more of it during its fiscal year to a sub-recipient shall:

Ensure that the nonprofit institution sub-recipients that receive \$25,000 or more have met the audit requirements of this Circular, and that sub-recipients subject to OMB Circular A-128 have met the audit requirements of that Circular:

b. Ensure that appropriate corrective action is taken within six months after receipt of the Sub-recipient audit report in instances of noncompliance with Federal laws and regulations;

c. Consider whether sub-recipient audits necessitating adjustment of the recipient's own records: and

d. Require each sub-recipient to permit independent auditors to have access to the records and financial statements as necessary for the recipient to comply with this Circular.

6. Relation to Other Audit Requirements.

An audit made in accordance with this Circular shall be in lieu of any financial audit required under individual Federal awards. To the extent that an audit made in accordance with this Circular provides Federal agencies with the information and assurances they need to carry out their overall responsibilities, they shall rely upon and use such information. However, a Federal agency shall make any additional audits or reviews necessary to carry out responsibilities under Federal law and regulation. Any additional Federal audits or reviews shall be

planned and carried out in such a way as to build upon work performed by the independent auditor.

b. Audit planning by Federal audit agencies should consider the extent to which reliance can be placed upon work performed by other auditors. Such auditors include State, local, Federal, and other independent auditors, and a recipient's internal auditors. Reliance placed upon the work of other auditors should be documented and in accordance with ~~Government~~ **Auditing Standards**.

c. The provisions of this Circular do not limit the authority of Federal agencies to make or contract for audits and evaluations of Federal awards, nor do they limit the authority of any Federal agency Inspector General or other Federal official.

d. The provisions of this Circular do not authorize any institution or sub-recipient thereof to constrain Federal agencies, in any manner from carrying out additional audits, evaluations or reviews.

e. A Federal agency that makes or contracts for audits, addition to the audits made by recipients pursuant to this Circular, shall, consistent with other applicable laws and regulations, arrange for funding the cost of such additional audits. Such additional audits or reviews include financial, performance audits and program evaluations.

7. **Frequency of Audit** Audits shall usually be performed annually but not less frequently than every two years.

8. **Sanctions**. No audit costs may be charged to Federal awards when audits required by this Circular have not been made or have been made but not in accordance with this Circular. In cases of continued inability or unwillingness to have a proper audit in accordance with the Circular, Federal agencies must consider appropriate sanctions including:

- withholding a percentage of awards until the audit is completed satisfactorily:
- withholding or disallowing overhead costs: or
- suspending Federal awards until the audit is made.

9. **Audit Cost** The cost of audits made in accordance with the provisions of this Circular are allowable charges to Federal awards. The charges may be considered a direct cost or an allocated indirect cost, determined in accordance with the provisions of Circular A-21, "Cost Principles for Universities". or 'Circular' A-122, "Cost Principles for Nonprofit Organizations,"

FAR subpart 31, or other applicable cost principles or regulations.

10. Auditor Selection In arranging for audit services institutions shall follow the procurement standards prescribed by Circular A-110, "Uniform Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and other Nonprofit Organizations."

11. small and Minority Audit Firms.

Small audit firms and audit firms owned and controlled by socially and economically disadvantaged individuals shall have the maximum practicable opportunity to participate in contracts awarded to fulfill the requirements of this Circular.

b. Recipient⁶ of Federal awards shall take the following steps to further this goal:

(1) Ensure that small audit firms and audit firms owned and controlled by socially and economically disadvantaged individuals are used to the fullest extent practicable:

(2) Make information on forthcoming opportunities available and arrange timeframes for the audit to encourage and facilitate participation by small audit firms and audit firms owned and controlled by socially and economically disadvantaged individuals;

(3) Consider in the contract process whether firms competing for larger audits intend to subcontract with small audit firms and audit firms owned and controlled by socially and economically disadvantaged individuals;

(4) Encourage Contracting With Small audit firms or audit firms owned and controlled by socially and economically disadvantaged individuals which have traditionally audited government programs, and in cases where this is not possible, assure that these firms are given consideration for audit subcontracting opportunities:

(5) Encourage contracting with consortiums of small audit firms as described in section (1) when a contract is too large for an individual small audit or audit firm owned and controlled by socially and economically disadvantaged individuals: and

(6) Use the services and assistance, as appropriate of such organizations as the Small Business Administration in the solicitation and utilization of small audit firms or audit firms owned and controlled by socially and economically disadvantaged individuals.

12. Scope of Audit and Audit Objectives.

a. The audit shall be made by an independent auditor in **accordance** with Government Auditing Standards developed by the **Comptroller** General of the United States covering financial audits. An audit under this Circular should be an organization-wide audit of the institution. **However, there may** be instances where Federal auditors are performing audits or **are** planning to perform audits at nonprofit institutions. In these cases, to minimize duplication of audit work, a coordinated audit approach may be agreed upon between the independent auditor, the recipient and the cognizant agency or the oversight agency. Those auditors who assume responsibility for any or all of the reports called for by paragraph 15 should follow guidance set forth in Government Auditing Standards in using work performed by others.

b. The auditor shall determine whether:

(1) The financial statements of the institution present fairly its financial position and the results of its operations in accordance with generally accepted accounting principles

(2) The institution has an internal control structure to provide reasonable assurance that the institution is managing Federal awards in compliance with applicable laws and regulations, and controls that ensure compliance with the laws and regulations that could have a material impact on the financial statements; and

(3) The institution has complied with laws and regulations that may have a direct and material effect on its financial statement amounts and on each major Federal program.

13. Internal Control Over Federal Awards Compliance Reviews.

a. ~~General~~ The independent auditor shall determine and report on whether the recipient has an internal control structure to provide reasonable assurance that it is managing Federal awards in compliance with applicable laws, regulations, and contract terms, and that it safeguards Federal funds. In performing these reviews, independent auditors should rely upon work performed by a recipient's internal auditors to the maximum extent possible. The extent of such reliance should be based upon the Government Auditor Standards.

b. Internal Control Review.

(1) In order to provide this assurance on internal controls, the auditor must obtain an understanding of the

internal control structure and assess levels of internal control risk. After obtaining an understanding of the controls, the assessment must be made whether or not the auditor intends to place reliance on the internal control structure.

(2) AS part of this review, the auditor Shall:

(a) Perform tests of controls to evaluate the effectiveness of the design and operation of the policies and procedures in preventing or detecting material noncompliance. Tests of controls will not be required for those areas where the internal control structure policies and procedures are likely to be ineffective in preventing or detecting noncompliance, in which case a reportable condition or a material weakness should be reported in accordance with paragraph 15 c(2) of this Circular.

(b) Review the recipient's System for monitoring sub-recipients and obtaining and acting on sub-recipient audit reports.

(c) Determine whether controls are in effect to ensure direct and indirect costs were computed and billed in accordance with the guidance provided in the general requirements section of the compliance supplement to this circular.

c. Compliance Review.

(1) The auditor Shall determine whether the recipient has complied with laws and regulations that may have a direct and material effect on any of its major Federal programs. In addition, transactions Selected for non-major programs shall be tested for compliance with Federal laws and regulations that apply to such transactions.

(2) In order to determine which major programs are to be tested for compliance, recipients shall identify, in their accounts, all Federal funds received and expended and the programs under which they were received. This shall include funds received directly from Federal agencies, through other State' and local governments or Other recipients. To assist recipients in identifying Federal awards, Federal agencies and primary recipients shall provide the Catalog of Federal Domestic Assistance (CFDA) numbers to the recipient when making the awards.

(3) The review must include the selection of an adequate number of transactions from each major Federal financial assistance program so that the auditor Obtain sufficient evidence to support the opinion on compliance required by paragraph 15c(3) of this Attachment. The Selection and testing of transactions Shall be based on the auditors' professional judgment considering such factors as the amount of expenditures

for the program: the newness of the program or changes in its conditions; prior experience with the program particularly as revealed in audits and other evaluations (e.g., inspections, program reviews, or system reviews required by Federal Acquisition Regulations); the extent to which the program is carried out through sub-recipients; the extent to which the program contracts for goods or services; the level to which the program is already subject to program reviews or other forms of independent oversight; the adequacy of the controls for ensuring compliance; the expectation of adherence or lack of adherence to the applicable laws and regulations; and the potential impact of adverse findings.

(4) In making the test of transactions, the auditor shall determine whether:

- the amounts reported as expenditures were for allowable services, and
- the records show that those who received services or benefits were eligible to receive them.

(5) In addition to transaction testing, the auditor shall determine whether:

- matching requirements, levels of effort and earmarking limitations were met,
- Federal financial reports and claims for advances and reimbursement contain information that is supported by books and records from which the basic financial statements have been prepared, and
- amounts claimed or used for matching were determined in accordance with 1) OMB Circular A-21, "Cost Principles for Educational Institutions" 2) matching or cost sharing requirements in Circular A-110, "Uniform Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations": 3) Circular A-122, "Cost Principles for Nonprofit Organizations"; 4) FAR subpart 31 cost principles: and 5) other applicable cost principles or regulations.

(6) The principal compliance requirements of the largest Federal programs may be ascertained by referring to the "Compliance Supplement for Single Audits of Educational Institutions and Other NonProfit Organizations and the

lement for Single Audits of State and Local
"Compliance Supplement for Single Audits of State and Local Governments," is issued by OHB and available from the Government
Printing Office. For those programs not covered in the
Compliance Supplements, the auditor should ascertain compliance
requirements by reviewing the Statutes, regulations, and
agreements governing individual programs,

(7) Transactions related to other awards that are
selected in connection with examinations of financial statements
and evaluations of internal controls shall be tested for
compliance with Federal laws and regulations that apply to such
transactions.

14. Illegal Acts. If, during or in connection with the audit of
a nonprofit institution, the auditor becomes aware of illegal
acts, such acts shall be reported in accordance with the
provisions of the Government Auditing Standards.

15. audit Reports.

a. Audit reports must be prepared at the completion of the
audit.

b. The audit report shall state that the audit was made in
accordance with the provisions of this Circular.

The report shall be made up of at least the following
three parts

(1) The financial statements and a schedule of Federal
awards and the auditor's report on the statements and the
schedule. The schedule of Federal awards should identify major
programs and show the total expenditures for each program.
Individual major programs other than Research and Development and
Student Aid should be listed by catalog number as identified in
the catalog of Federal Domestic Assistance Expenditures for
Federal programs other than major programs shall be shown under
the caption "other Federal assistance." Also, the value of
non-cash assistance such as loan guarantees, food commodities or
donated surplus properties or the outstanding balance of loans
should be disclosed in the schedule.

(2) A written report of the independent auditor's
understanding of the internal control structure and the
assessment of control risk. The auditor's report should include
as a minimum: 1) the scope of the work in obtaining understanding
of the internal control structure and in assessing the control
risk, 2) the nonprofit institution's significant internal
control or control structure including the controls established
to ensure compliance with laws and regulations that have a
material impact on the financial statements and those that
provide reasonable assurance that Federal awards are being

managed in compliance with applicable laws and regulations, and 3) the reportable conditions, including the identification of material weaknesses, identified as a result of the auditor's work in understanding and assessing the control risk. If the auditor limits his/her consideration of the internal control structure for any reason, the circumstances should be disclosed in the report.

(3) The auditor's report on compliance containing:

we An opinion as to whether each major Federal program was being administered in compliance with laws and regulations applicable to the matters described in paragraph 13(c) (3) of this Attachment, including compliance with laws and regulations pertaining to financial reports, and claims for advances and reimbursements;

A statement of positive assurance on those items that were tested for compliance and negative assurance on those items not tested;

Material findings of noncompliance presented in their proper perspective:

- 0 The size of the universe in number of items and dollars,
- 0 The number and dollar amount of transactions tested by the auditors,
- 0 The number and corresponding dollar amount of instances of noncompliance:

Where findings are specific to a particular Federal award, an identification of total amounts questioned, if any, for each Federal award, as a result of noncompliance and the auditor's recommendations for necessary corrective action.

d. The three parts of the audit report may be bound into a single document, or presented at the same time as separate documents.

e. Nonmaterial findings need not be disclosed with the compliance report but should be reported in writing to the recipient in a separate communication. The recipient, in turn, should forward the findings to the Federal grantor agencies or subgrantor sources.

f. All fraud or illegal acts or indications of such acts including all questioned costs found as the result of these acts

that auditors become aware of, may be covered in a separate written report submitted in accordance with the Government Auditing Standards.

The auditor's report should disclose the status of known but uncorrected significant material findings and recommendations from prior audits that affect the current audit objective as specified in the Government Auditing Standards.

h. In addition to the audit report, the recipient shall provide a report of its comments on the findings and recommendations in the report, including a plan for corrective action taken or planned and comments on the status of corrective action taken on prior findings. If corrective action is not necessary, a statement describing the reason it is not should accompany the audit report.

1. Copies of the audit report shall be submitted in accordance with the reporting standards for financial audits contained in the Government Auditing Standards. Sub-recipient auditors shall submit copies to recipients that provided Federal awards. The report shall be due within 30 days after the completion of the audit, but the audit should be completed and the report submitted not later than 13 months after the end of the recipient's fiscal year unless a longer period is agreed to with the cognizant or oversight agency.

j. Recipients of more than \$100,000 in Federal awards shall submit one copy of the audit report within 30 days after issuance to a central clearinghouse to be designated by the Office of Management and Budget. The clearinghouse will keep completed audit reports on file.

k. Recipients shall keep audit reports, including sub-recipient reports, on file for three years from their issuance.

16. A u d i t.

As provided in paragraph 3 the cognizant agency shall be responsible for ensuring the resolution of audit findings that affect the programs of more than one Federal agency. Resolution of findings that relate to the programs of a single Federal agency will be the responsibility of the recipient and the agency. Alternate arrangements may be made on case-by-case basis by agreement among the agencies concerned.

b: A management decision shall be made within six months after receipt of the report by the Federal agencies responsible for audit resolution. Corrective action should proceed as rapidly as possible.

170 Audit Workpapers and Reports Workpapers and reports shall be retained for a minimum of three years from the date of the audit report, unless the auditor is notified in writing by the cognizant agency to extend the retention period. Audit workpapers shall be made available upon request to the cognizant agency or its designee or the General Accounting Office, at the completion of the audit.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington D.C. 20503

June 21, 1995

Circular No. A-123
Revised

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISSEMENTS

FROM: Alice M. Rivlin
Director

SUBJECT: Management Accountability and Control .

i. purpose and Authority. As Federal employees develop and implement strategies for reengineering agency programs and operations, they should design management structures that help ensure accountability for results, and include appropriate, cost-effective controls. This Circular provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls.

The Circular is issued under the authority of the Federal Managers' Financial Integrity Act of 1982 as codified in 31 U.S.C. 3512.

The Circular replaces Circular No. i-123, "Internal Control Systems," revised, dated August 4, 1986, and O&B's 1982 "Internal Controls Guidelines" and associated "Questions and Answers" document, which are hereby rescinded.

2. Policy Management accountability is the expectation that managers are responsible for the quality and timeliness of program performance, increasing productivity, controlling costs and mitigating adverse aspects of agency operations, and assuring that programs are managed with integrity and in compliance with applicable law.

Management controls are the organization, policies, and procedures used to reasonably ensure that, (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making.

3. Actions Required. Agencies and individual Federal managers must take systematic and proactive measures to (i) develop and implement appropriate, cost-effective management controls for results-oriented management; (ii) assess the adequacy of management controls in Federal programs and operations; (iii) identify needed improvements; (iv) take corresponding corrective action; and (v) report annually on management controls.

TN 95-14
(10/01/95)

Attachment

I. INTRODUCTION

The proper stewardship of Federal resources is a fundamental responsibility of agency managers and staff. Federal employees must ensure that government resources are used efficiently and effectively to achieve intended program results. Resources must be used consistent with agency mission, in compliance with law and regulation, and with minimal potential for waste, fraud, and mismanagement:

To support results oriented management, the Government Performance and Results Act (GPRA, P.L. 103-62) requires agencies to develop strategic plans, set performance goals, and report annually on actual performance compared to goals. As the Federal government implements this legislation, these plans and goals should be integrated into (i) the budget process, (ii) the operational management of agencies and programs, and (iii) , accountability reporting to the public on performance results, and on the integrity, efficiency, and effectiveness with which they are achieved.

Management accountability is the expectation that managers are responsible for the quality and timeliness of program performance, increasing productivity, controlling costs and mitigating adverse aspects of agency operations, and assuring that programs are managed with integrity and in compliance with applicable law.

Management controls Organization, policies, and procedures are tools to help program and financial managers achieve results and safeguard the integrity of their programs. This Circular provides guidance on using the range of tools at the disposal of agency managers to achieve desired program results and meet the requirements of the Federal Managers' Financial Integrity Act (FMFIA, referred to as the Integrity Act throughout this document).

Framework The importance of management controls is addressed, both explicitly and implicitly, in many statutes and executive documents. The Federal Managers Financial Integrity Act (P.L. 97-255) establishes specific requirements with regard to management controls. The agency head must establish controls that reasonably ensure that: (i) obligations and costs comply with applicable law; (ii) assets are safeguarded against waste, loss, unauthorized use or misappropriation; and (iii) revenues and expenditure⁶ are properly recorded and accounted for. 31 U.S.C. 3512(c)(1). In addition, the agency head annually must evaluate and report on the control and financial systems that protect the integrity of Federal programs. 31 U.S.C. 3512(d)(2).

4. Effective Date. This Circular is effective upon issuance.

5; Inquiries Further information concerning this Circular may be obtained from the Management Integrity Branch, Office of Federal Financial Management, Office of Management and Budget, . Washington, DC 20503, 202/395-6911.

6. Copies. Copies of this Circular may be obtained by telephoning the Executive Office of the President, Publication Services., at 202/395-7332.'

7. Electronic Access This document is also accessible on ^{the} U.S. Department of Commerce's FedWorld Network under the OMB Library of Files.

- The Telnet address for FedWorld via Internet is "fedworld.gov". 0 "

0 The World Wide Web address is <http://www.fedworld.gov/ftp.htm#omb>.

0 For file transfer protocol (FTP) access, the address is [llftp://fwux.fedworld.gov/pub/omb/omb.htm](ftp://fwux.fedworld.gov/pub/omb/omb.htm)".

The telephone number for the FedWorld help desk is 703/487-4608'

Attachment

The Act encompasses program, operational, and administrative areas as well as accounting and financial management.

Instead of considering controls as an isolated management tool, agencies should integrate their efforts to meet the requirements of the Integrity Act with other efforts to improve effectiveness and accountability. Thus, management controls should be an integral part of the entire cycle of planning; budgeting, management, accounting, and auditing. They should support the effectiveness and the integrity of every step of the process and provide continual feedback to management.

For instance, good management controls can assure that performance measures are complete and accurate. As another example, the management control standard of organization would align staff and authority with the program responsibilities to be carried out, improving both effectiveness and accountability. Similarly, accountability for resources could be improved by more closely aligning budget accounts with programs and charging them with all significant resources used to produce the program's outputs and outcomes.

Meeting the requirements of the Chief Financial Officers Act (P.L. 101-576, as amended) should help agencies both establish and evaluate management controls. The Act requires the preparation and audit of financial statements for 24 Federal agencies. 31 U.S.C. 901(b), 3515. In this process, auditors report on internal controls and compliance with laws and regulations. Therefore, the agencies covered by the Act have a clear opportunity both to improve controls over their financial activities, and to evaluate the controls that are in place.

The Inspector General Act (P.L. 95-452, as amended) provides for independent reviews of agency programs and operations. Offices of Inspectors General (OIGs) and other external audit organizations frequently cite specific deficiencies in management controls and recommend opportunities for improvements. Agency managers, who are required by the Act to follow up on audit recommendations, should use these reviews to identify and correct problems resulting from inadequate, excessive, or poorly designed controls, and to build appropriate controls into new programs.

Federal managers must carefully consider the appropriate balance of controls in their programs and operations. Fulfilling requirements to eliminate regulations ("Elimination of One-Half of Executive Branch Internal Regulations" Executive Order 12861) should, reinforce to agency managers that too many controls can result in inefficient and ineffective government, and therefore that they must ensure an appropriate balance between too many controls and too few controls. Managers should benefit from controls, not be encumbered by them.

Agency Implementation. Appropriate management controls should be integrated into each system established by agency management to direct and guide its operations. A separate management control process need not be instituted, particularly if its sole purpose is to satisfy the Integrity Act's reporting requirements.

Agencies need to plan for how the requirements of this Circular will be implemented. Developing a written strategy for internal agency use may help ensure that appropriate action is taken throughout the year to meet the objectives of the Integrity Act; The absence of such a strategy may itself be a serious management control deficiency.

Identifying and implementing the specific procedures necessary to ensure good management controls', and determining how to evaluate the effectiveness of those controls, is left to the discretion of the agency head. However, agencies should implement and evaluate controls without creating unnecessary processes, consistent with recommendations made by the National Performance Review.

The President's Management Council, composed of the major agencies' chief operating officers has been, established to foster governmentwide management changes (implementing Management Reform in the Executive Branch," October 1, 1993). Many agencies are establishing their own senior management council . often chaired by the agency's chief operating officer, to address management accountability and related issues within the broader context of agency operations. Relevant issues for such a council include ensuring the agency's commitment to an appropriate system of management controls; recommending to the agency head which control deficiencies are sufficiently serious to report in the annual integrity Act report; and providing input for the level and priority of resource needs to correct these deficiencies. (See also Section III of this Circular.)

II. .Establishing management Controls

Definition of Management Controls Management controls are the organization, policies, and procedures used by agencies to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making.

Management controls, in the broadest sense, include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include processes for planning, organizing, directing, and controlling program operations. A subset of management controls are the internal controls used to assure that there is prevention or

timely detection of unauthorized acquisition, use, or disposition of the entity's assets.

Developing Management Controls. As Federal employees develop and execute strategies for implementing or reengineering agency programs and operations, they should design management structures that help ensure accountability for results. As part of this process, agencies and individual Federal managers must take systematic and proactive measures to develop and implement appropriate, cost-effective management controls. The expertise of the agency CFO and IG can be valuable in developing appropriate controls.

Management controls guarantee neither the success of agency programs, nor the absence of waste, fraud, and mismanagement, but they are a means of managing the risk associated with Federal programs and operations. To help ensure that controls are appropriate and cost-effective, agencies should consider the extent and cost of controls relative to the importance and risk associated with a given program.

standards. Agency managers shall incorporate basic management controls in the strategies, plans, guidance and procedures that govern their programs and operations. Controls shall be consistent with the following standards, which are drawn in large part from the "Standards for Internal Control in the Federal Government," issued by the General Accounting office (GAO).

General management control standards are

- 1 Compliance With Law. All program operations, obligations and costs must comply with applicable law and regulation; Resources should be efficiently and effectively allocated for duly authorized purposes.
- a Reasonable Assurance and Safeguards. Management controls must provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation. Management controls developed for agency programs should be logical, applicable, reasonably complete, and effective and efficient in accomplishing management objectives.
- b Integrity, Competence, and Attitude. Managers and employees must have personal integrity and are obligated to support the ethics programs in their agencies. The spirit of the Standards of Ethical Conduct requires that they develop and implement effective management controls and maintain a level of competence that allows them to accomplish their assigned duties. Effective communication within and between offices should be encouraged.

Specific management control standards are:

- Delegation of Authority and Organization.. Managers should ensure that appropriate authority, responsibility and accountability are defined and delegated to accomplish the mission of the organization, and that an appropriate organizational structure is established to effectively carry out program responsibilities. To the extent possible, controls and related decision-making authority should be in the hands of line managers and staff.
- Separation of Duties and supervision. Key duties and responsibilities in authorizing, processing, recording, and reviewing official agency transactions should be separated among individuals. Managers should exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities.
- 0 Access to and Accountability for Resources. Access to resources and records should be limited to authorized individuals, and accountability for the custody and use of resources should be assigned and maintained.
- a Recording and Documentation Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.
- 0 Resolution of Audit Findings and Other Deficiencies. Managers should promptly evaluate and determine proper actions in response to known deficiencies, reported audit and other findings, and related recommendations. Managers should complete, within established timeframes, all actions that correct or otherwise resolve the appropriate matters brought to managements attention.

Other policy documents may describe additional specific standards for particular functional or program activities. For example, OMB Circular No. A-127, "Financial Management Systems," describes government-wide requirements for financial systems. The Federal Acquisition Regulations define requirements for agency procurement activities.

III. ASSESSING AND IMPROVING MANAGEMENT CONTROLS

Agency managers should continuously monitor and improve the effectiveness of management controls associated with their programs. This continuous monitoring, and other periodic

evaluations, should provide the basis for the agency head's annual assessment of and report on management controls, as required by the Integrity Act. Agency management should determine the appropriate level of documentation needed to support this assessment.

Sources of information The agency head's assessment of management controls can be performed using a variety of information sources. Management has primary responsibility for monitoring and assessing controls, and should use other sources as a supplement to -- not a replacement for -- its own judgment. Sources of information include: .

- Management knowledge gained from the daily operation of agency programs and systems.
- Management reviews conducted (i) expressly for the purpose of assessing management controls, or (ii) for other purposes with an assessment of management controls as a by-product of the review.
- TG and GAO reports, including audits, inspections, reviews, investigations, outcome of hotline complaints, or other products.

Program evaluations.

Audits of financial statements conducted pursuant to the Chief Financial Officers Act, as amended, including: information revealed in preparing the financial statements; the auditor's reports on the financial statements, internal controls, and compliance with laws and regulations; and any other materials prepared relating to the statements.

Reviews of financial systems which consider whether the requirements of OMB Circular No. A-127 are being met.

Reviews of systems and applications conducted pursuant to the Computer Security Act of 1987 (40 U.S.C. 759 note) and OMB Circular No. A-130, "Management of Federal Information Resources."

Annual performance plans and reports pursuant to the Government Performance and Results Act.

Reports and other information provided by the Congressional committees of jurisdiction.

Other reviews or reports relating to agency operations, e.g., for the Department of Health and Human Services, quality control reviews of the Medicaid and Aid to Families with Dependent Children programs.

use of a source of information should take into consideration whether the process included an evaluation of management controls. Agency management should avoid duplicating reviews which assess management controls, and should coordinate their efforts with other evaluations to the extent practicable.

If a Federal manager determines that there is insufficient information available upon which to base an assessment of management controls, then appropriate reviews should be conducted which will provide such a basis.

Identification of Deficiencies. Agency managers and employees should identify deficiencies in management controls from the sources of information described above. A deficiency should be reported if it is or should be of interest to the next level of management. Agency employees and managers Generally report deficiencies to the next supervisory level, which allows the chain of command structure to determine the relative importance of each deficiency.

A deficiency that the agency head determines to be significant enough to be reported outside the agency (i.e. included in the annual integrity Act report to the President and the Congress) shall be. considered a material weakness." This designation requires a judgment by agency managers as to the relative risk and significance of deficiencies. Agencies may wish to use a different term to describe less significant deficiencies, which are reported only internally in an agency. In identifying and assessing the relative importance of deficiencies, particular attention should 'be paid to the views of the agency's IG.

Agencies should carefully consider whether systemic problems exist that adversely affect management controls across organizational or program lines. The Chief Financial Officer, the Senior Procurement Executive. The Senior IRM Official, and the managers of other functional offices should be involved in identifying and ensuring correction of systemic deficiencies relating-to their respective functions.

Agency managers and staff should be encouraged to identify and report deficiencies, as this 'reflects positively on the agency's

This Circular's use of the term nmaterial weakness should not be confused with use of the same term by government auditors to identify management control 'weaknesses which, in their opinion, pose a risk or a threat to the internal control systems of an audited entity; such as a program or operation. Auditors are required to identify and report those types of weaknesses at any level of operation or organization, even if the management of the audited entity would not report the weaknesses outside the agency.

commitment to recognizing and addressing management problems. Failing to report a known deficiency would reflect adversely on the agency.

^c Role of A Senior Management Council. Many agencies have found that a senior management council is a useful forum for assessing and monitoring deficiencies in management controls. The membership of such councils generally includes both line and staff management; consideration should be given to involving the IG. Such councils generally recommend to the agency head-which deficiencies are deemed to be material to the agency as a whole, and should therefore be included in the annual Integrity Act, report to the President and the Congress. (Such a council need not be exclusively devoted to management control issues.) process will help identify deficiencies that although minor individually, may constitute a material weakness in the aggregate. Such a council may also be useful in determining when sufficient action has been taken to declare that a deficiency has been corrected.

i v . CORRECTING MANAGEMENT CONTROL DEFICIENCIES

Agency managers are responsible, for taking timely and effective action to correct deficiencies identified by the variety of sources discussed in Section III. Correcting deficiencies is an integral part of management accountability and must be considered a priority by the agency.

^c The extent to which corrective actions are tracked by the agency should be commensurate with the severity of the deficiency. Corrective action plans should be developed for all material weaknesses, and progress against plans should be periodically assessed and reported to agency management. Management should track progress to ensure timely and effective results. For deficiencies that are not included in the Integrity Act report, corrective action plans, should be developed and tracked internally at the appropriate level.

A determination that a deficiency has been corrected should be made only when sufficient, corrective actions have been taken and the desired results achieved. This determination should be in writing, and along with other appropriate documentation, should be available for review by appropriate officials. (See also role of senior management council in Section III.)

As managers consider IG and GAO audit reports in identifying and correcting management control deficiencies, they must be mindful of the statutory requirements for audit follow up included in the IG Act, as amended.. Under this law, management has a responsibility to complete action, in a timely manner, on audit recommendations on which agreement with the IG has been reached.

5 U.S.C. Appendix 3. (Management must make a decision regarding

IG audit recommendations within a six month period and implementation-of management's decision should be completed within one year to the extent practicable.) Agency managers and the IG share responsibility for ensuring that IG Act requirements are met.

V. REPORTING ON MANAGEMENT CONTROLS

Reporting Pursuant to Section 2 31 U.S.C. 3512(d)(2) (commonly referred to as Section 2 of the Integrity Act) requires that, annually by December 31, the head of each executive agency, submit to the President and the Congress (i) a statement on whether there is reasonable assurance that the agency's controls are 'achieving their intended objectives; and (ii) a report on material weaknesses in the agency's controls. OMB may provide guidance on the composition of the annual report.

Statement of Assurance. The statement on reasonable assurance represents the agency head's informed judgment as to the overall adequacy and effectiveness of management controls within the agency. The statement must take one of the following forms: statement of assurance; qualified statement of assurance, considering the exceptions explicitly noted; or statement of no assurance.

In deciding on the type of assurance to provide, the agency head should consider information from the sources described in Section III of this Circular, with input from senior program and administrative officials and the IG. The agency head must describe the analytical basis for the type of assurance being provided, and the extent to which agency activities were assessed. The statement of assurance must be signed by: the agency head.

Report on Material Weaknesses. The Integrity Act report must include agency plans to correct the material weaknesses. and progress against those plans.

Reporting Pursuant to Section 4 31 U.S.C. 3512(d)(2)(8) (commonly referred to as Section 4 of the Integrity Act) requires an annual statement on whether the agency's financial management systems conform with government wide requirements. These financial Systems requirements are presented in OMB Circular NO. A-127, "Financial Management Systems," section 7. If the agency does not conform with financial systems requirements, the statement must discuss the agency's plan for bringing its systems into compliance.

If the agency head judges a deficiency in financial management systems and/or operations to be material when weighed against other agency deficiencies, the issue must be included in the

annual Integrity Act report in the same manner as other material weaknesses.

Distribution of Integrity Act Report The assurance statements and information related to both Sections 2 and 4 should be provided in a single Integrity Act report., Copies of the report are to be transmitted to the President; the President of the Senate; the Speaker of the House of Representatives; the Director of OMB; and the Chairpersons and Ranking Members of the Senate Committee on Governmental Affairs, the House Committee on Government Reform and Oversight, and the relevant authorizing and appropriations committees and subcommittees. In addition, 10 copies of the report are to be provided to OMB's Office of Federal Financial Management, Management Integrity Branch. Agencies are also encouraged to make their reports available electronically.

Streamlined Reporting The Government Management Reform Act (GMRA) of 1994 (P.L. 103-356) permits OMB for fiscal years 1995 through 1997 to consolidate or adjust the frequency and due dates of certain statutory financial management reports after consultation with the Congress. GMRA prompted the CFO Council to recommend to OMB a new approach towards financial management reporting-which could help integrate management initiatives. This proposal is being pilot-tested by several agencies for FY 1995. Further information on the implications of this initiative for other agencies will be issued by OMB after the pilot reports have been evaluated. In the meantime, the reporting requirements outlined in this Circular remain valid except for these agencies identified as pilots by OMB.

Under the CFO Council approach, agencies would consolidate Integrity Act information with other performance-related reporting into a broader "Accountability Report" to be issued annually-by the agency head. This report would be issued as soon as possible after the end of the fiscal year, but no later than March 31 for agencies producing audited financial statements and December 31 for all other agencies. The proposed "Accountability Report" would integrate the following information: the Integrity Act report, management's Report on Final Action as required by the IG Act, the CFOs Act Annual Report (including audited financial statements), Civil Monetary Penalty and Prompt Payment Act reports; and available information on agency performance compared to its stated goals and objectives, in preparation for implementation of the GPRA.

Government Corporation Section 306 of the Chief Financial Officers Act established a reporting requirement related to management controls for corporations covered by the Government Corporation and Control Act. 31 U.S.C. 9106. These corporations must submit an annual management report to the Congress not later than 180 days after the end of the corporation's fiscal year.

This report must include, among other items, a statement on control systems by the-head of the management of the corporation consistent with the requirements of the Integrity Act.

The corporation is required to provide the President, the Director of OMB, and the Comptroller General a copy of the management report when it is submitted to Congress.